

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, 2009
2. SEC Identification Number 31171      3. BIR Tax Identification No. 000-168-801
4. Exact name of registrant as specified in its charter PETRON CORPORATION
5. Philippines      6.  (SEC Use Only)  
Province, Country or other jurisdiction of incorporation or organization      Industry Classification Code:
7. San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, 1550  
Address of principal office      Postal Code
8. (0632) 886-3888  
Registrant's telephone number, including area code
9. N/A  
(Former name, former address, and former fiscal year, 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/Preferred Stock Outstanding and Amount of Debt Outstanding
<u>Common Stock</u>	<u>9,375,104,497 Shares</u>
<u>Preferred Stock</u>	<u>100,000,000 Shares</u>

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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 and 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  No
- (b) has been subject to such filing requirements for the past 90 days.
- Yes  No
13. The aggregate market value of the voting stock held by non-affiliates of the Registrant is **P49.668** billion based on the price of **₱5.30**/per share as of the last trading day of the year, **29 December 2009**.

#### DOCUMENTS INCORPORATED BY REFERENCE

N o n e

## PART I - BUSINESS

### (A) Description of Business

#### (1) Business Development

##### Petron

Petron Corporation was incorporated in the Philippines in 1966 as Esso Philippines, Inc. The Company was renamed Petrophil Corporation in 1973 when the Philippine National Oil Company (PNOC) acquired Esso. In 1985, Petrophil Corporation and Bataan Refinery Corporation (formerly the Standard Vacuum Refining Corporation) were merged with Petrophil as the surviving corporation. Petrophil later changed its corporate name to Petron Corporation.

On March 4, 1994, PNOC sold 40% of its shares in Petron to Aramco Overseas Company B.V. (AOC), a wholly owned subsidiary of Saudi Arabian Oil Company (SAUDI ARAMCO). On September 7, 1994, 20% of Petron's shares were listed for trading with the Philippine Stock Exchange (PSE) in the biggest Initial Public Offering (IPO) in the Philippines pursuant to Section 17.2 of the Securities Regulation Code. Thus, in summary, the ownership structure of Petron was 40% PNOC, 40% AOC and the 20% was held by the general public.

On March 13, 2008, Aramco Overseas Company B.V. (AOC), 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 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 Saudi Aramco's 40% interest in Petron in July 2008. Pursuant to the Securities Regulation Code, Ashmore complied with the requirements of mandatory tender offer.

A total of 990,979,040 common shares were tendered representing 10.57% of the total outstanding common shares of Petron. Together with the private sale of AOC's 40% interest in Petron, the Ashmore group, thru its corporate nominee SEA BV, acquired 50.57% of the outstanding common shares in Petron in the latter part of July 2008.

On October 6, 2008, PNOC informed SEA BV and Petron of its intent to dispose its 40% stake in the company. In December 2008, the 40% interest of PNOC in Petron was finally purchased by SEA Refinery Corporation (SRC), a domestic corporation wholly-owned by SEA BV. In a related development, SEA BV sold a portion of its interest in Petron equivalent to 10.1% of the issued shares to SRC. Thus, at the turn of the year, the capital structure of Petron was as follows: SRC - 50.10%; SEA BV - 40.47%; and the general public - 9.43%; making SEA BV's direct and indirect ownership interest in Petron at 90.57%. As of December 31, 2009, SEA BV is the Company's parent company.

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

In February 27, 2009 Board meeting, the Board approved the amendment of the Articles of Incorporation to include the generation and sale of electric power in its primary purpose. The objective is principally to lower the refinery power cost thru self-generation and, in the event there is excess power, to sell the same to third parties. The Board also approved an increase of the capital stock from the current P10 billion to P25 billion through the issuance of preferred shares, raising funds for capital expenditures related to expansion programs, and possibly, to reduce some of the Company's debts. Both items were approved by the stockholders on May 12, 2009.

On October 21, 2009, the Board approved the amendment of Petron's Articles of Incorporation to reclassify a total of 624,895,503 unissued common shares to preferred shares with a par value of ₱ 1.00 per share, which also includes a waiver of the stockholders' pre-emptive rights on the issuance of preferred shares. Features of said shares were approved by the Executive Committee on November 25, 2009.

In December 2009, the Company submitted the requirements for the registration of preferred shares with the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE). By written assent, majority of the stockholders voted for the amendment of the reclassification of unissued common shares to preferred shares.

Petron Corporation is the largest refiner and marketer of petroleum products in the Philippines. The Company's ISO certified refinery which processes crude oil into a full range of petroleum products has a capacity of 180,000 barrels a day. It supplies more than one-third of the country's oil requirement through its nationwide network.

## **Subsidiaries**

At present, Petron has the following subsidiaries:

- New Ventures Realty Corporation (NVRC) is a realty firm established on August 24, 1995. The company was then equally owned by Petron which at that time was less than 60% Filipino and the Petron Retirement Fund (PRF). In June 2003, Petron increased its ownership share in NVRC to 80% with NVRC still compliant with the nationality requirement. In October 2008 and considering the probability of an increasing foreign ownership in Petron should PNOC's 40% equity be purchased by a foreign entity, PRF increased its equity ownership in NVRC to 60% of the issued shares. Thus, regardless of the foreign equity movements in Petron, PRF's 60% ownership in NVRC and the latter's eligibility to own land is not affected. NVRC is authorized to acquire and develop land but it does not engage in the subdivision business. Lands suitable for use as service station sites, bulk plants or sales offices are purchased by NVRC. These properties are leased to Petron for use in the latter's operation. Las Lucas Development Corporation, now renamed Las Lucas Construction & Development Corporation as approved by the SEC in September 2009, is a wholly-owned subsidiary of NVRC which was acquired in July 2003.
- Petrogen Insurance Corporation or Petrogen is a wholly-owned subsidiary of Petron Corporation incorporated on August 23, 1996. It serves the insurance requirements of Petron and its allied business partners such as contractors, suppliers and dealers. Licensed by the Insurance Commission in November 1996, Petrogen has the authority to issue policies on fire, marine, casualty and bonds. Insurance provided excludes life insurance. In 2001, it was granted authority to cover insurance for accidental death and dismemberment, travel and directors' and officers' liability. Pursuant to the Insurance Commission's Memo Circular requiring all life and non-life insurance companies to increase their paid up capital to ₱ 200 million, the Petrogen Board, on May 5, 2009, approved the additional increase of 75,000 shares to the existing 125,000 shares.

- Overseas Insurance Corporation, Ltd. or 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 Insurance Corporation. Reinsurance includes the insurance cover for the 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 (formerly Petron Treats Subic, Inc.) was incorporated on November 6, 2003. It is a Petron subsidiary empowered to, among others, sell on wholesale or retail fuels such as gasoline, kerosene, diesel, LPG, lubricants and greases as well as operate retail outlets, restaurants, convenience stores and the like. The company has its principal office at the Subic Bay Metropolitan Area (SBMA), and operates Petron's "mega station" at the SBMA. In 2006, the company ventured into the manufacture of fuel additives with the establishment of an oil blending plant in a joint agreement with Innospec, a global specialty chemicals company.
- Petron Marketing Corporation (PMC) was incorporated on January 27, 2004 with the same business purpose as the Petron Freeport Corporation. The Retail Trade Liberalization Act paved the way for Petron to form a direct-retailing subsidiary. The new subsidiary operates company-owned, company-operated (COCO) service stations. It offers a complete range of fuel products. The COCO stations play a major part in launching market initiatives to strengthen the Petron brand and give Petron the opportunity to quickly introduce innovations beyond the present services that are available in Petron stations.

The subsidiaries have no plans of engaging in lines of products or services other than that provided for the promotion and enhancement of Petron, particularly its service station business.

Petron Corporation and any of its subsidiaries have not been the subject of any bankruptcy, receivership or similar proceedings.

In addition Petron incorporated Petron Foundation, Inc. (PFI) on July 25, 1996. PFI was created to function and operate as a charitable and research foundation: to handle social, environmental, and music and arts development projects of Petron; to institutionalize and intensify Petron's active involvement in corporate and social responsibility projects; to support scholarship programs for financially-handicapped but deserving students; and to participate in other social projects supported by Petron.

## **Operating Highlights**

### **Marketing**

Based on estimated industry data for 2009, Petron Corporation is the over-all market leader at 37.0% share, or 9.5% points higher than Pilipinas Shell Petroleum Corporation. This was achieved through the opening of new service stations in strategic locations, and launching of nationwide and localized sales promos. Petron maintained its leadership in all fuel sectors, while it is a strong second in the lubricant business.

Reseller's 2009 volume slightly dipped by 0.5%, largely due to the effects of several typhoons which hit the country, including "Ondoy." However, this was mitigated by the completion of close to 200 new outlets, enabling the Company to tap new growth areas. As of end-2009, Petron had more than 1,400 service stations nationwide, with outlet share of 30%, the highest in the industry.

Amid sluggish economic activity in 2009 which affected operations of major industries, Industrial-Civil's sales improved by 3.2% versus 2008 primarily due to the acquisition starting April of San Miguel Corporation's fuel needs, and ad hoc purchases of other accounts.

Meanwhile, Petron's 2009 NPC sales slid by 2.8% due to the loss of BPPC (La Union) to competition and reduced purchases of Dingle DPP II with Salcon Power's utilization of Panay DPP contract for the requirements of Panay Complex.

Gasul sales increased by 0.3% versus 2008 due to the following: (1) higher retail sales with the acquisition of new commercial accounts and opening of more than 100 branch stores; (2) acquisition of several new industrial accounts; and (3) increased autogas sales.

Lube sales slipped by 7.1% due primarily to reduced operations of several industrial accounts affected by the economic crisis. The decline was however tempered by the opening of two Car Care Centers (CCC).

## Refinery

Although 2009 was a challenging year, Petron's Refinery again proved its resilience with its performance in 2009 highlighted by the following:

- (1) Successful commissioning of the Benzene-Toluene Extraction (BTX) unit
- (2) Refinery's IMS (Integrated Management System) Certification
- (3) Successful process units' turnaround and revamp works in the First Quarter
- (4) Timely restoration of the electrical distribution system, which was damaged by fire in November 26, 2008
- (4) Successful processing of new crudes as part of the Company's crude diversification program
- (5) Higher Net Refining margin of \$0.46/bbl versus program
- (6) Better than target Refinery Fuel and Loss (RF&L) performance
- (7) Safety performance with better than target Integrated Safety Performance Index
- (8) Organizational restructuring for a more focused and more responsive organization and
- (9) Intensified Corporate Social Responsibility (CSR) programs.

Other performance measures for the year include the following:

- **Crude Run** in 2009 was 89.5 MBCD, just 1% lower than program of 90.4 MBCD. More significant, however, is Refinery's venture into processing of crudes other than Arab crudes such as Sakhalin Vityaz, Oman, Murban, Lower Zakum, Palawan Light crude and Kikeh. From about 92% Arab crude in the slate in 2008, 2009 crude slate showed only 81.2% Arab crude.
- **Refinery Utilization** was only 73.8% due mainly to economics to operate at low crude run.
- **Net Refining Margin** was US\$0.46/Bbl higher than program due mainly to higher recovery of middle distillates (2.1 vol% higher), lower consumption of Low Sulfur Fuel Oil for IFO blending and better than expected Refinery and Fuel Oil & Loss performance.
- **Unit Cost of Manufacturing (UCM)** is the measure of Refinery Cash OPEX per barrel of crude processed. The higher UCM than target was due to high actual fixed cost brought about by significantly lower actual crude run (89.5 MBCD) than budget basis (124.7 MBCD).

In terms of variable cost, the actual was ₱ 0.5 /Bbl lower than budget due to underrun in variable costs such as Materials and Supplies and Purchased Utilities.

- **RF&L and Energy Intensity Index (EII)** were within target due to efficient energy utilization particularly during 2nd half of the year when there were minimal plant disruptions. Refinery gain is higher due to better PetroFCC expansion as a result of high severity operation and lower CCRU contraction due to higher N+2A of the CCRU feed.
- **Operational Availability (OA)** was below target particularly in the first half of the year due to tripping of 16 MVA which resulted to unscheduled shutdown of several process units; PetroFCC T-721 cleaning; and CCRU shutdown for C-3401 turbine steam supply line cleaning. Negative economic impact of low Operational Availability was minimal due to low Refinery utilization as influenced by economical programmed crude run.
- **Processing Efficiency Index (PEI)** was within target at 99.7 due to higher white product recovery and lower RF&L that negated the impact of unscheduled shutdowns during the year.
- **Integrated Safety Performance Index (ISPI)** was better than target in spite of increased number of Refinery activities due to major turnaround and construction of BTX project in the 1st quarter. The Refinery attained 486 days work (7,899,368 man-hours) without Lost Time Accident (LTA) since September 1, 2008.
- A total of 22,803 **training man-hours** were dedicated to personnel development (excluding new employees' and apprentices' training). Bulk of the trainings conducted focused on safety trainings related to BTX project, odor awareness, and chemical and solid waste management. Although training manhours per employee is less than target, it is anticipated that this will be improved in 2010 with the creation of the new Technical Training Department (TTD) in July 2009. TTD has upgraded the structure and system of employee trainings. With the improved curriculum, training of new personnel was hastened making them more competent in the shortest possible time.

## Supply and Operations

### ➤ Ethanol Program

Republic Act No. 9637, also known as The Biofuels Act of 2006, mandates that starting February 2009, at least 5% of the total annual volume of gasoline sold by every oil company be bioethanol. Petron implemented ahead of this mandate by making E-10 available in selected Petron stations. Petron went full blast in its Ethanol program in May 2009 when it blended 10% ethanol in its two major gasoline brands which is currently served nationwide in seven major locations.

### ➤ Biodiesel Program

Starting February 2009, pursuant to the Biofuels Law, the mandated biodiesel blend in the country was increased from 1% to 2%. In compliance, Petron started blending 2% Coconut Methyl Ester (CME) in all diesel sold in the country starting February 6. CME blending facilities were installed nationwide.

### ➤ 100% Double Hull for White Oil Vessels

Starting January 2011, the Maritime Industry Authority (MARINA) will require all marine vessels delivering white petroleum products to coastal locations to have double hull configuration. Two double hull vessels were contracted by Petron in 2009. In 2010, three double hull vessels will be contracted and two existing white coastal single hull vessels will be converted to double-hull starting July 2010 to meet the marine safety requirements of MARINA.

➤ **Management Systems Certifications - Quality, Environment, Security**

The Quality Management Systems of 29 Petron terminals and depots are currently certified to QMS ISO 9001:2000. These quality certifications assure customers that they are provided with the best products and services in the industry.

On environmental sustainability, 16 Petron terminals and depots are now certified to EMS ISO 14001:2004, an international standard on Environmental Management Systems. While the Company's facilities handle products that are potentially harmful to people and the environment, Petron assures environmental care and emergency preparedness within and immediately around its terminals and depots.

Petron has likewise started its certification program on Occupational Health and Safety Management System (ISO 18001:2007) to ensure employees, customers, business partners and adjacent communities of the highest level of safety awareness at its depots. For 2009, five depots were initially certified and Operations Department is continuously expanding the locations covered by this recognition, with more depots to be certified within the 2010-2011 timeframe.

➤ **Bawing Depot Expansion**

In compliance with a resolution approved by the General Santos City Council reclassifying the land on which the depot is located, the rationalized depot jointly operated by the industry in Bula was formally closed on December 31, 2008.

Prior to the said depot closure, Petron strategically expanded its existing stand-alone Bawing Depot situated 17 kilometers away, to serve as the Company's primary supply point in the SOCSARGEN area. The depot was inaugurated on January 02, 2009. The project involved the addition of product storage and service facilities. The timely completion of the depot enabled a smooth transition of Bula operations to Bawing which averted potential supply problems in the tributary area.

## **Information Technology**

Petron's Business Systems Support Department (BSSD) successfully passed its first Information Security Management System (ISMS) surveillance audit conducted in June 22, 2009. Only minor issues were observed by the certification auditors. These issues were immediately addressed to further improve the effectiveness of the system in preserving the confidentiality, integrity, and availability of Information.

As a background, in 2008, Petron embarked on the project to implement a system in managing the security of the Company's information assets. It is based on the best practices in ISMS. The aim was to preserve the three attributes of Information Security, which are confidentiality, integrity and availability.

To-date, Petron is the first and only oil company in the Asia Pacific to receive the ISO/IEC27001:2005 certificate, serving as a testament to the Company's continued commitment towards preserving its assets with respect to confidentiality, integrity, and availability of information.

## Human Resources

The Company's Human Resources Management Department (HRMD) continues to implement programs for the employees' professional and personal development. In 2008, the People Management Association of the Philippines or PMAP chose Petron as the Employer of the Year and its HRMD Manager as the People Manager of the Year.

## Health, Safety and Environment

On November 5, 2009, the Department of Labor and Employment - Bureau of Working Conditions (DOLE-BWC) conferred the Safety Milestone (**Smile**) Recognition Award to the Company for displaying exemplary safety performance in 24 facilities. A special award of recognition was likewise given to the Company's 19 accredited Occupational Safety and Health (OSH) Consultants and Practitioners for their significant and active involvement that resulted in the attainment of zero LTA in several company facilities.

Petron continued to conduct audits of service stations, depots, the Refinery, and contracted marine vessels to verify their compliance with the Company's standards and procedures and to identify areas for improvement. A team of risk engineers from SwissRe, SCOR and Allianz (the Refinery's major insurers) conducted an engineering risk survey at the Refinery and Pandacan Terminal relative to Petron's Industrial All Risk (IAR) policy coverage.

Fire Drills were conducted every month to train the Fire Brigades of the various facilities of the Company in responding to various emergency scenarios. Oil spill exercises were also conducted in the depots and the Refinery. Likewise, oil spill exercises among industry players were conducted in the presence of the Philippine Coast Guard.

## Corporate Social Responsibility

PFI stepped up its efforts in promoting community-based Corporate Social Responsibility (CSR) programs through an active stakeholder engagement process. It played a key role in instituting a company-wide practice of sustainability management and reporting. This was highlighted by the publication of Petron's first Sustainability Report adopting the Global Reporting Initiative's (GRI) International Guidelines with B-level application. It successfully managed the Company's relief operations in response to a major natural catastrophe. Highlights of PFI's accomplishments for 2009 include the following:

- **Promoting Community-Based CSR.** - The Foundation developed and implemented CSR initiatives for the Company's communities in Bataan and Pandacan. For Bataan, PFI co-established a Fish Sanctuary and Agro-Forestry program, as well as refurbished a Technical Skills Training Center, to provide ways and means for sustained livelihood. It also led efforts to continue the Bataan Integrated Coastal Management program and organize the Sulong KaBataan, a province-wide, multi-stakeholder partnership on education, environment and employment.

For Pandacan, the Petron Community Health Center was established to provide specialized health services complementing the program and services of barangay health centers for indigent families in Pandacan. Soup kitchens are regularly organized for residents located nearby, including a

feeding program with Caritas Manila for undernourished children. The Foundation increased the number of scholars as Tulong Aral ng Petron beneficiaries.

- **Supporting Ondoy victims.** For two months, PFI extended swift assistance to thousands of people affected by Typhoon Ondoy. Support included soup kitchens and medical missions in critical areas, as well as donations of various relief items -- generated largely from Petron service stations serving as drop-off centers for motorists -- to key government agencies, NGOs and affected communities.
- **Implementing education and entrepreneurship programs.** - Under Fuel H.O.P.E., PFI sustained the implementation of flagship programs in education and the environment. The Tulong Aral ng Petron presently has 6,054 elementary scholars in Metro Manila and Mindanao. At the end of school year 2008-2009, the Foundation had 412 outstanding scholars and 26 first honors. PFI continues to support 293 high school scholars in partnership with Land Bank of the Philippines.

For our USAID-Petron Schools in Mindanao, a total of 34 classrooms were constructed and another 150 classrooms were repaired in 2009. Partnership with USAID and the International Youth Foundation further strengthened the Teachers' Training in order to develop the capability of mentors and teachers in teaching English, Math and Science.

With its Youth in Entrepreneurship and Leadership Development program (YIELD), PFI produced its fourth batch of student trainees from the Muntinlupa Business High School (MBHS) after completing their on-job training in Petron COCO stations. Significantly, the Competency-Based Curriculum developed by Petron and TESDA for MBHS became the basis for a new Tech/Voc curriculum to be piloted by DepEd in 282 public secondary schools nationwide.

- **Stakeholder Engagement and Employee Volunteerism.** - Approximately 948 or 70% of all Petron employees rendered roughly 12,195 hours of volunteer service in 2009. Petron's stakeholders also provided volunteer support to its programs, with 7,037 people (service count) putting in 45,418 volunteer hours to help some 90,285 beneficiaries.
- **Scaled Up Efforts On Sustainability Management and Reporting.** - Triple bottomline reporting is getting to be institutionalized in Petron, with indicators on social and environmental impacts incorporated in Petron's business planning guidelines. As an offshoot of the 1<sup>st</sup> Sustainability Report, Petron is undertaking a Greenhouse Gas Accounting and Air Pollution Measurement and Management program to identify emissions reduction measures and help enhance Petron's environment and financial performance.

Social investments in 2009 amounted to P 94 Million. Total amount applied for a 150% tax incentive under the Department of Education's Adopt-A-School Program (RA 8525) reached P48.6 Million.

Petron Foundation is committed to cost discipline and delivery of results, consistent with local and international standards.

## **(2) Business of the Company**

### **(i) Principal products or services and their markets**

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

The major markets in the petroleum industry are Reseller, 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 the Pandacan Terminal. Lubricants are sold through service stations and sales centers. Its fuel additive blending plant in Subic Bay Freeport supplies the Company's requirements and serves as the Asian supply hub of Innospec, in joint venture with Petron Freeport Corporation.

The Company also continues to expand its non-fuel businesses which include convenience store brand "Treats". 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**

**Sales Revenue**

	<b>Domestic</b>	<b>Exports</b>	<b>Total</b>
2007, in million pesos	178,574	31,946	210,520
2007, in percent	85%	15%	100%
2008, in million pesos	230,776	36,900	267,676
2008, in percent	86%	14%	100%
2009, in million pesos	163,696	12,835	176,531
2009, in percent	93%	7%	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 Refinery, 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.

Meanwhile, lubes and greases in various packages are also transported via container vans to bulk plants and terminals outside Metro Manila. Sales Centers are also appointed to sell these products.

In the LPG trade, Petron has a nationwide network of retail dealerships and outlets. Some service stations also carry the Company's LPG products and accessories.

**(iv) New products or services**

## **New Products/Product Enhancements**

- **Petron Diesel Max with 2% Biodiesel**

As part of its compliance with the Biofuels Act of 2006, Petron launched the new Petron Diesel Max with 2% coconut methyl ester (CME) last May 2009.

Petron Diesel Max is a premium quality fuel meeting the stringent requirements of the Biofuels Act and the Philippine National Standards. It contains 2% coconut methyl ester (CME) and a multifunctional additive system to provide unsurpassed detergency characteristics for a cleaner engine and better smoke control, more efficient combustion for maximum acceleration and smooth power, and an improved burning quality and fuel economy.

- **Petron Industrial Diesel Fuel with 2% Biodiesel**

The Company likewise launched the new Petron Industrial Diesel Fuel with 2% coconut methyl ester (CME) last May 2009, as part of its compliance with the Biofuels Act.

Petron Industrial Diesel Fuel is a “dual purpose” fuel that contains 2% biodiesel. It is recommended as boiler fuel in domestic or light industrial installation with pressure jet burners and as diesel fuel for off-the highway equipment such as stationary diesel engines, farm tractors, construction equipment, railway, and marine engines.

- **Upgrade of Ultron Race from API SL to API SM**

To be at par with competitive products, Petron enhanced the performance quality level of Ultron Race. From API SL, Ultron Race already meets API SM, the highest and the latest quality standards for lubricants for gasoline engines licensed by the American Petroleum Institute (API). API SM has higher requirements for lubricants to meet superior engine performance, protection, and cleanliness compared to the requirements of API SL.

Ultron Race is the ultimate performance, synthetic engine oil designed to provide maximum engine protection for all passenger cars and light duty trucks and vans powered by gasoline engines. It is suitable for high performance engines, especially those fitted with turbochargers, or operated under the most severe conditions.

## **Research Activities**

- **Study on the possible effects of ethanol-gasoline blends on rubber and polymeric materials in the containment and fuel delivery systems**

The Biofuels Act of 2006 stipulates the mandatory use of biofuels as a measure to develop and utilize indigenous renewable energy sources. The act mandated that all gasoline fuels for motors and engines sold in the Philippines shall contain bioethanol. By 2011, Bioethanol shall comprise ten percent (10%) of the ethanol-gasoline blends sold in the country.

Although the use of bioethanol in gasoline is already implemented, there are still many issues and concerns being raised by consumers, car manufacturers, and industry sectors on the benefits and possible effects of ethanol-blended gasoline on the engine.

One area of concern is the materials compatibility of ethanol with engines and fuel delivery systems. Some materials used in fuel systems such as elastomers (rubber-like compounds used in fuel lines, evaporative canister lines, gaskets, and hoses) are found to deteriorate more rapidly in the presence of ethanol.

In view of this, Petron worked together with a motorcycle manufacturer to identify possible effects of ethanol-gasoline blends on rubber and polymeric materials in the containment and fuel delivery systems.

#### **(v) Competition**

The Company operates in a deregulated oil industry. Petron participates in the reseller (service station), industrial, lube and LPG sectors, through its network of service stations, terminals & bulk plants, dealers, and distributors nationwide. In addition, it is also engaged in convenience business through its Treats C-stores and locators which are largely within the premises of the service stations. Industry players include major firms Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines (Chevron) (formerly Caltex Philippines), as well as more than 90 other independent players.

Similar to other industries, the global economic slowdown had a material impact on the oil industry's performance. It was heavily affected by the volatility in 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 been observed.

In 2009, Petron maintained over-all market leadership at 37.0% share, against Shell's 27.5% and Chevron's 14.1%, while the new players collectively cornered the balance of 21.4%. Petron leads in all fuel sectors. Petron is still the single biggest player in LPG at 34.7% share. Meanwhile, it is a strong second in the lubes business with a market share of 37.4% against Shell's 40.3%.

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

**Dampening Fuel Demand.** Based on Department of Energy (DOE) exchange data, the country's total consumption of petroleum products has been declining annually by an average 2% for the past ten years. The demand slump can be attributed to increasing fuel prices prompting users to shift to alternative energy, and stricter environmental requirements.

However, based on tentative industry volumes, a 6% industry growth was noted from 102.1 million barrels in 2008 to 108.5 million barrels in 2009. Growth was highest in Industrial Civil under Wholesale Trade with the entry of four new oil companies in 2009. Backing out these players' volumes will result in a growth of only 2% at an industry demand way below historical levels.

**Volatile Crude Prices.** Crude prices remained volatile in 2009, albeit less dramatic than in 2008 when prices surged to a record US\$140/Bbl then plummeted to about US\$40/Bbl in just five months. In 2009, the average international spot price of Asian Dubai Crude soared from US\$44.12/Bbl in January to US\$75.42/Bbl in December or a significant jump of 71%. This oil price hike is a result of investors' bullish outlook on oil prices in anticipation of global economic recovery and the weakening of the dollar against major currencies.

**Growing Industry Competition.** Deregulation has seen the entry of more than 90 other industry players, rendering the petroleum business more competitive. In the reseller sector, competition is most

dynamic among the majors, as seen through the construction of stations by Shell, Chevron, as well as Total Philippines, in major thoroughfares. Even the small players continue to grow, with station count increasing from 695 in 2001 to about 1,400 stations in 2009. New players in the Reseller sector and Liquigaz particularly in the LPG Trade continue to resort to price wars and aggressive discounting in order to expand market share. In the industrial sector, investments continue to pour in from major players aimed at increasing market share and tapping new markets. The number of LPG importers increased from three, prior to deregulation, to about seven, with new entrants claiming more flexible and bigger import receiving capacities. In the lubes market, intense competition among over 50 brands, including big names like Castrol, Mobil, Shell & Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of uncharted markets like auto-dealerships & malls.

**Public Perception on Fuel Pricing.** The public's understanding of fuel pricing remains limited to recovery of direct costs (e.g. recovery of cost of crude). The public should appreciate that oil companies are commercial entities that need to obtain a reasonable return on investment to merit long-term viability.

**Illegal Trading Practices.** Notwithstanding government and private sector's efforts through various programs to address smuggling, "bote-bote" retailing, illegal refilling, etc., cases of illegal activities have persisted, resulting in unfair competition among players.

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

In 2009, Petron purchased most of its crude from Saudi Aramco. It also purchased Miri crudes from Petronas. Other crudes like Sakhalin Vityaz, Palawan Light, Lower Zakum, Oman and Labuan were purchased on spot basis from different companies. The crude supply agreement with Saudi Aramco and Petronas will be renewed annually.

For Low Sulfur Fuel Oil (LSFO), the Company imports bulk of its requirements from Petrobras Singapore Pte Ltd and occasional spot LSFO purchase are sourced from different companies.

Petron also renewed its contract for the supply of Group I Base Oils (SN500, SN150 and BS150) with Shell International Eastern Trading Co. (SIETCO) for 2009. The Group I base oils are the Company's main feedstock for production of automotive, industrial and marine lubricants.

The Company is currently getting majority of its ethanol requirements from San Carlos Bioenergy, Inc. (SCBI) which has a capacity of 37.5 million liters per year and supplements this with importation. It has a long term supply contract with SCBI. The plant was commissioned for commercial operation in February 2009.

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

National Power Corporation (NPC) accounts for 8% of Petron's total domestic sales volume as of end-2009. Loss of this account will impact on the Company's sales volume. However, lost sales to NAPOCOR could be re-directed to the export market.

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

Petron has been leasing from its former major shareholder, PNOC, parcels of land where its Refinery and most of its bulk plants, terminals, and service stations are located. Petron has also been leasing from its affiliate, New Ventures Realty Corporation (NVRC), some parcels of land where some of its depots, terminals and many service stations are located. Under the Retail Trade Liberalization Law, Petron is allowed to engage in direct retail of its fuel products thru its subsidiaries, namely, PMC and PFC. PMC is also leasing service station sites from NVRC.

As mentioned above, Petron has been purchasing most of its crude requirements from former major stockholder, Saudi Aramco, thru a supply agreement which has been revised and will be renewed annually.

Majority of the insurance policies of Petron for 2009 were placed with Petrogen Insurance Corporation.

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

**(A) Trademarks**

As of December 31, 2009, the Company has existing and pending trademark registrations 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 the creator's death.

**(B) Government Approval of Principal Products or Services**

Government approval of Petron products and services is generally not 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**

**ASEAN Trade in Goods Agreement (ATIGA).** The ASEAN Trade in Goods Agreement (ATIGA) which eliminates duties on crude and products traded between six member countries (Brunei, Indonesia, Malaysia, Philippines, Thailand and Singapore) has been approved and implemented effective January 1, 2010. Reduction in tariff for the other ASEAN member countries (Laos, Cambodia, Myanmar and Vietnam) will commence in 2015. The elimination of import duties will benefit oil importers but would hurt refiners. Since refiners import crude mainly from the Middle East, they would still be subject to 3% duty while importers whose main source is Singapore benefit from duty-free imports. The Oil Deregulation Law, however, which seeks to maintain a level playing field, mandates uniform tariff for crude and petroleum products. The Tariff Commission is still evaluating the petition of refiners to reduce crude and finished products tariff to zero, regardless of source.

**Biofuels Act of 2006.** Aiming to reduce the dependence of transport sector on imported fuel, the Biofuels Act mandates that ethanol comprise 5% of total gasoline sales by 2009. Oil companies are allowed to blend the different premium gasoline grades with 10% ethanol to be sold in selected areas to achieve the 5% of total gasoline volume requirement. The requirement to sell ethanol blended gasoline starts February 9, 2009. For diesel engines, biodiesel blend increases from the current 1% to 2% last February 10, 2009.

To produce compliant fuels, the Company invested in CME (coco methyl ester) injection systems at the Refinery and 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.

**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 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 MARINA mandated the use of double-hull vessels for transporting black products beginning end-2008 and by 2011 for white products.

Petron has been using double-hull vessels in transporting all black products and some white products already.

**Clean Air Act.** Petron invested in a Gasoil Hydrotreater Plant and in 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:**

Every initiative or program the company undertakes would have a research and development aspect to it but it is not always a distinct component. Often, this element is integrated into the other aspects or operational levels of our programs.

**(xiii) Costs and effects of compliance with environmental laws**

Compliance with the various environmental laws like the Renewable Energy Act of 2008, Biofuels Act of 2006, Clean Air Act, Clean Water Act etc. definitely entails costs and additional investments on the part of the Company, resulting in higher production costs and operating expenses.

**(xiv) Total number of employees**

As of December 31, 2009, the Company's employees totaled 1,347 broken down as follows: Chairman, President, 12 VPs, 871 Managerial, Professional and Technical (MPT) employees, and 462 Rank and File employees. It has no plans of increasing its workforce by a significant number for the ensuing 12 months.

Petron has Collective Bargaining Agreements with its three 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 CBA covers the period January 1, 2008 to December 31, 2010; PELU CBA is in effect from January 1, 2009 to December 31, 2011; and PEA-NATU is from January 1, 2008 to December 31, 2010. The Company did not deal with any labor strike for the past three years nor were there union complaints submitted to the Department of Labor and Employment.

In addition to the statutory benefits, the Company provides hospitalization insurance wherein both the employee and the company share in the payment of the insurance premium; life insurance; vacation, sick and emergency leaves; and computer, company and emergency loans subject to applicable interests. It also established a Savings Plan wherein an eligible employee may apply for membership and have the option to contribute five to fifteen percent of his monthly basic salary. The Company, in turn, contributes a maximum of five percent to a member-employee's account in the Plan. An integral

part of this plan is the Land/Home Ownership Plan wherein a one-time financial assistance is extended to a Savings Plan member in securing housing loans for residential purposes.

Also, as part of the Company's compensation package, it adopted the Rewarding Excellence through Alternative Pay Program (REAP), a performance incentive program which is based on the achievement of the Company's annual business goals.

## **Major Risks Involved**

### **Risk Management Framework & Process**

Petron Corporation 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 risk owner mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks. As the Company'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 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 adequacy of risk management policies and the determination of the risk appetite pass through the Investment and Risk Management Committee, which is composed of the Chairman of the Board, President, Senior Vice Presidents and Vice Presidents of the Company. The Financial Planning Unit is tasked with the overall coordination and development of the enterprise-wide risk management process. Crude oil and petroleum product hedging transactions are handled by a cross-functional Commodity Risk Management Committee, with the Commodity Risk Manager responsible for risk management of crude and product imports and product margins. The Financial Risk Management Unit of the Treasurer's Department takes charge of foreign exchange hedging transactions, whereas the Transaction Management Unit of Controllers Department provides backroom support for all hedging transactions. The Corporate Technical Services Group oversees strict adherence to safety and environmental mandates across all facilities. Finally, the Internal Audit Department has been tasked with the implementation of a risk-based auditing.

The Board of Directors also created separate board-level entities with explicit authority and responsibility in managing and monitoring risks, such as the Audit Committee which ensures the integrity of internal control of the Company's activities; and the Compliance Officer who monitors compliance of the Corporate Governance Manual and determines possible violations and recommends corresponding penalties subject to review and approval of the Board. The Compliance Officer identifies and monitors compliance risks and submits pertinent reports to the SEC.

### **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 2008 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 (Philippine Peso) against that for the bulk of costs (US Dollar). 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 Company's exposure to interest rate risk is mainly related to its cash and cash equivalent and debt instruments. Currently, the Company has achieved a balanced mix of cash balances with various deposit rates and fixed and floating rates on its various debts.
- 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 statement of financial position or in the notes to the consolidated financial statements.
- Liquidity risk assumes the possibility that adverse changes in the business environment and/or its operations could result to substantially higher working capital requirements and consequently, a difficulty in financing additional working capital.
- Commodity price risk is obtained as a result of potential losses due to volatility of international crude and product prices.
- Other market price risk arises from its investments carried at fair value (FVPL and AFS financial assets).

The Company has determined that none of the risk factors faced by any of its subsidiaries would be a major risk - these have either a low probability of occurring and/or has insignificant potential impact. Thus, while subsidiary-specific risks were considered in the Company's risk management process, these are considered relatively minor.

### **Management of Major Risks**

- Foreign exchange risk
  - The Company hedges its dollar-denominated liabilities using forwards and the generation of dollar-denominated sales. It avoids the creation of risk from derivative speculation by limiting the use of forwards 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 a 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 currently being upgraded to include tracking of risk exposures arising from other market sensitive financial variables, such as interest rates and commodity prices.
- Interest rate risk
  - Future hedging decisions for floating deposit/interest rates will continue to be guided by an assessment of the overall deposit and interest rate risk profiles of the Parent Company considering the net effect of possible deposit and interest rate movements.
  - The Company 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.
- Credit Risk
  - Credit is regulated and extended only to qualified and credit-worthy customers and counterparties, consistent with established Company credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by Marketing and Finance Divisions.

- Liquidity Risk
  - The Company monitors its cash position and maintains a pool of credit lines from financial institutions that exceeds projected financing requirements for working capital. The Company, likewise, regularly evaluates other financing instruments and arrangements to broaden the Company's range of sources of financing.
  -
- Commodity Hedging Risk
  - Commodity hedging for petroleum products has been implemented to protect margins of MOPS (Mean of Platts of Singapore)-based sales and protect product inventories from downward price risk. Hedging policy (including the use of commodity price swaps, buying of put options, and use of collars and 3-way options; with collars and 3-way options starting in March 2008) developed by the Commodity Risk Management Committee is in place. Decisions are guided by the conditions set and approved by the Company's management.
- Other Market Price Risk
  - The Company manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

## **(B) Description of Property**

Petron owns the largest petroleum refinery complex in the Philippines located in Limay, Bataan. The Refinery has a crude distillation capacity of 180,000 barrels per day (BPD). It has three Crude Distillation Units, a Vacuum Pipestill Unit, a Continuous Catalyst Regeneration Reformer Unit, a Semi-Regenerative Reformer Unit, two Naphtha Hydrotreaters, two LPG Treaters, an Isomerization Unit, a Mixed Xylene Recovery Unit, a Kerosene Merox Treater, two Gas Oil Hydrotreater Units, a Sulfur Recovery Unit, a Caustic Regeneration Unit, Waste Water Treatment Facilities, eight Steam Generators, five Turbo Generators, Flare and Safety Relieving Facilities, Bulk Asphalt Receiving Facilities, several crude storage tanks, as well as several refined petroleum products storage tanks, PetroFluidized Catalytic Cracking Unit, the Propylene Recovery Unit and the newly constructed Benzene/Toluene-Extraction Unit. 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 are in Amlan, Negros Oriental; Culasi, Roxas City; Linao, Ormoc City; Anibong, Tacloban City; Isabel, Leyte; Tagbilaran City, Bohol; Iligan City; Jimenez, Misamis Occidental; Bawing, General Santos City and Nasipit, Agusan del Norte.

Petron has airport installations at the JOCASP, NAIA, Pasay City; Laoag City; Iloilo and Davao Cities. Since Petron is no longer qualified to own the parcels of land where the Bataan Refinery, the terminals, the bulk plants and the service stations are located, these lands are now leased from the Philippine National Oil Company (PNOC) and from New Ventures Realty Corporation (NVRC) on 25-year leases, which are renewable. Petron's lease agreements on those lands owned by private persons vary as to their terms and conditions, including the period of lease.

In September 2009, PNOC and NVRC entered into a lease agreement on refinery facilities, which shall take effect in January 2010 and subsist for 25 years, renewable for another 25 years upon mutual agreement of the parties. Lease charges on said facilities escalate at 3% a year, subject to increase upon reappraisal conducted every five years. Annual rental is at ₱ 92.6 million.

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

### **(C) Contingent Liabilities**

In 2009, Petron was involved in certain litigation some of which are material as this term is understood under the law. These are:

- 1. Commissioner of Internal Revenue v. Petron Corporation**  
**CA -GR No. 55330**  
Court of Appeals  
Date Filed: October 1999

**Petron Corporation v. Commissioner of Internal Revenue and BIR Regional Director of Makati, Region 8**  
**CTA Case No. 5657**  
Court of Tax Appeals  
Date Filed: July 7, 1998

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 P659 million from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, the Company was a qualified transferee of 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 where the case is still pending.

Exposure: P1,107,542,547.08 plus 20% annual interest from April 22, 1998

Relief sought on Appeal: The BIR seeks a reversal of the CTA decision and prays for judgment ordering Petron to pay P1,107,542,547.08 in excise tax liabilities for 1993-1997 inclusive of surcharges and interest, plus 25% surcharge and 20% annual interest from April 22, 1998.

Status: Petron's motion for reconsideration of the Court of Appeals' resolution suspending decision on the case until the termination of the DOF investigation on the TCCs assigned to Petron remains unresolved. Petron filed a Motion for Re-raffle requesting the re-raffle of the case and its immediate resolution which likewise remains pending.

Likelihood of resolution against Petron: Considering the Supreme Court's decision in the substantially identical case of Pilipinas Shell on December 21, 2007, in which the Court nullified the assessment of the deficiency excise taxes, a final resolution of this case by the Supreme Court adverse to Petron is unlikely.

- 2. Petron Corporation v. Commissioner of Internal Revenue**  
**SC - G.R. No. 180385**  
Supreme Court  
Date Filed: November 21, 2007

**Petron Corporation v. Commissioner of Internal Revenue**

**CTA EB No. 238**

**CTA Case No. 6136**

Court of Tax Appeals

Date Filed: July 10, 2000

Background: In November 1999, the Department of Finance (DOF) Center ExCom cancelled Tax Debit Memos (TDMs) worth ₱475 million, the related TCCs and their assignments. The BIR implemented this with a letter of assessment for deficiency excise taxes of ₱284 million plus interest and charges for the years 1995 to 1997, as a result of the cancellation. The Company contested on the grounds that the assessment has no factual and legal basis and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000.

On August 23, 2006, the Second Division of the CTA rendered its Decision denying Petron's petition and ordered it to pay the BIR ₱580 million representing deficiency excise taxes for 1995 to 1997 plus 20% interest per annum from December 4, 1999. Petron appealed the Division's Decision to the CTA en banc. On October 30, 2007, the CTA en banc dismissed Petron's appeal, with 2 of 4 justices dissenting. On November 21, 2007, Petron filed its appeal with the Supreme Court.

Exposure: ₱651,334,263.92 plus 20% interest from November 1999.

Status: After the Supreme Court gave due course to Petron's appeal on November 7, 2008, the case is now submitted for resolution with the parties' submission of their respective memoranda.

Likelihood of resolution against Petron: Remote, for the same reason as C(1) above.

**3. Petron Corporation v. Commissioner of Internal Revenue**

**CTA EB 311**

**CTA Case No. 6423**

Court of Tax Appeals

Date Filed: April 2002

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 TDMs by the DOF Center ExCom. The Company 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 Second Division of the CTA 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 thru a Petition for Review filed on October 1, 2007.

Exposure: ₱720,923,224.74 plus 20% interest per annum from January 2002.

Status: On December 3, 2008, after Petron filed its Manifestation and Motion informing the CTA En Banc of the Supreme Court Decision in the Pilipinas Shell case cited in C(1) above, the CTA

En Banc reversed the unfavorable decision of the CTA 2nd Division\*. The CIR filed a petition for Review with the Supreme Court. As ordered by the Court, Petron filed its Comment on April 20, 2009.

Likelihood of resolution against Petron: Remote, for the same reason as C(1) and C(2) above.

We should note that there are duplications in the TCCs subject of the three assessments. Excluding these duplications, the basic tax involved in all three assessments represented by the face value of the related TCCs is ₱910.7 million.

#### 4. Pandacan Cases

**Petron Corporation v. City Council of Manila,  
et al.**

**Civil Case NO. 03-106379**

RTC Manila Br. 42

Date Filed: April 25, 2003

Background: In November 2001, the City Council of Manila, citing concerns on safety, security and health, passed City Ordinance No. 8027 reclassifying the areas in Pandacan, Manila occupied by the oil terminals of Petron, Shell and Chevron from Industrial to Commercial, making the operation of the terminals therein unlawful. The oil companies were given 6 months from effectivity of the Ordinance to vacate Pandacan.

Petron filed a petition to annul City Ordinance No. 8027 and stop the City Council of Manila, as well as Mayor Joselito Atienza from implementing the same.

At the same time that the legal measures were being undertaken, a MOU was executed between the oil companies, the DOE, and the City of Manila in June 2002 which document represented efforts to address the concerns of the City Council with the implementation of a scale down program to reduce tankage capacities and joint operation of the Pandacan facilities with Shell and Chevron and allow the continued operation of the oil depots.

A status quo order in the court cases was in effect and the cases of Petron, Shell and Chevron, went under mediation proceedings. Thereafter, the City of Manila approved the Comprehensive Land Use Plan and Zoning Ordinance (CLUPZO) (Ordinance No. 8119) that allows the oil companies a seven-year grace period (see discussion in C[5] below). The passage of Ordinance No. 8119 was thought to effectively repeal Manila Ordinance No. 8027. However, on March 7, 2007, the Supreme Court rendered a Decision in the case of SJS Society vs. Atienza, directing the Mayor of Manila to immediately enforce Ordinance No. 8027.

Relief sought: Nullification of Ordinance No. 8027

Status: On March 12, 2007, Petron, together with Shell and Chevron, filed an Urgent Motion for Leave to Intervene and Urgent Motion to Admit Motion for Reconsideration of the Decision dated March 7, 2007.

On February 13, 2008, the Supreme Court allowed the oil companies' intervention but denied their motion for reconsideration, declaring Manila City Ordinance No. 8027 valid and applicable to the oil terminals. The Court dissolved all existing injunctions against the implementation of the ordinance and directed the oil companies to submit their relocation plans to the Regional Trial Court to determine, among others, the reasonableness of the time frame for relocation.

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\* Computed from June 27, 2002 until the amount is fully paid, if the Division's decision were enforced, damages would reach a total of P2,222,846,609.6.

The Court acknowledged that the removal of the oil depots cannot be rushed and acknowledged that the 6-month period under the ordinance was too short.

On February 28, 2008, Petron, jointly with Chevron and Shell, filed its motion for reconsideration of the Resolution. On May 13, 2008, the three oil companies submitted their Comprehensive Relocation Plans to the RTC in compliance with the February 13 Resolution of the Supreme Court. On April 28, 2009, the denied the oil companies' motion for reconsideration. The March 7, 2007 decision of the Supreme Court became final and executory on February 27, 2008.

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

Likely Outcome: The Supreme Court's decision in this case upholding the validity of Ordinance No. 8027 and its applicability to the Pandacan oil depots has become final and executory. However, thereafter, the City Council of Manila passed Ordinance No. 8187 allowing the continued operation of the oil depots at Pandacan.

#### **5. Petron Corporation v. The City of Manila, et al.**

**Civil Case NO. 07-116700**

RTC Manila Br. 41

Date Filed: February 8, 2007

Background: The City Council passed the Manila Comprehensive Land Use Plan and Zoning Regulations of 2006 (Ordinance No. 8119), which was approved by Mayor 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 years to phase out or relocate.

Shell and Chevron filed their Complaint questioning Ordinance No. 8119 but were unable to secure a writ of injunction that would have suspended effectivity of Ordinance No. 8119 until the case was decided. From October 29, 2007, Ordinance No. 8119 has been effective and the 7-year period to relocate has been running.

Petron filed the necessary motions to intervene in the case. However, on August 11, 2006, the presiding judge denied Petron's Motion to Intervene, and ruled that Petron has no legal interest in the case and its claims may be properly addressed in a separate proceeding.

Status: As a result of the RTC's denial of Petron's Motion to Intervene, Petron filed its separate complaint on February 8, 2007 to question the validity of the Manila City Ordinance No. 8119 and to seek a writ of preliminary injunction to stop the running of the seven-year period to remove the depots at Pandacan. On February 22, 2007, the court issued a 20-day TRO prohibiting the City of Manila from implementing Ordinance No. 8119. On October 9, 2007, Petron already formally offered its evidence in support of its application for a Writ of Preliminary Injunction. On Nov. 10, 2009, the Court deferred the hearings to Feb 2010 due to the passage of Ordinance 8187 that allow the oil depots to continue operating at Pandacan.

Relief sought: Nullification of Ordinance No. 8119

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

Likely Outcome: Considering the Decision of the Supreme Court in Social Justice Society v. Atienza, it is likely that Ordinance No. 8119 will be declared as inapplicable to the oil depots in

Pandacan, rendering this case moot insofar as Petron is concerned. Moreover, the Court will likely take into consideration the effectivity of Ordinance 8187.

**6. 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 Lim for nullification of Ordinance No. 8187 which repeals both City Ordinance Nos. 8027 and 8119, effectively allowing the continued operation of the oil depots at Pandacan.

**Status:** On June 1, 2009, Social Justice Society officers filed a petition for prohibition against Mayor Lim before the Supreme Court, seeking the nullification of Ordinance 8187. There has been no official action from the Supreme Court on this latest petition yet. The City filed its Comment on August 13, 2009. Petron filed its Comment-in-Intervention on December 1, 2009.

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

**Likely Outcome:** Considering the prevailing law and existing jurisprudence, we believe that the Supreme Court will uphold the validity of Ordinance No. 8187.

**7. 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.

**Status:** On June 5, 2009, former Manila Mayor Lito Atienza filed his own petition with the Supreme Court seeking to stop the implementation of Ordinance 8187. The City filed its Comment on August 13, 2009. The Court has not issued a temporary restraining order against the implementation of Ordinance No. 8187.

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

**Likely Outcome:** Considering the prevailing law and existing jurisprudence, we believe that the Supreme Court will uphold the validity of Ordinance No. 8187.

**8. 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, relied on the documents presented by SMDC as carrier. PETRON also relied on the implied warranties of SMDC as “carrier” with respect to the seaworthiness of the vessel MT “SOLAR I” and other statutory/trading certificates issued by the Marine Industry Authority 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. 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 11 August 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.

Status: On November 21, 2006, Petron filed a Memorandum of Appeal with the Department of Transportation and Communication (DOTC), elevating the disputed ruling of the BMI for review.

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

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

Likely Outcome: Considering the prevailing law and existing jurisprudence, we believe that Petron has a very good chance of success, if not with the DOTC then with the court to which any dispute will eventually be brought.

**9. Emily Dalida and Marcelino Gacho v.  
Petron, Sunshine Maritime and Capt. Aguro  
NPS # VI-08-INV-09F-00081  
Office of the Provincial Prosecutor, Guimaras**

Background: This case was filed on June 17, 2009 by 2 alleged victims of the oil spill resulting from the sinking of the M/T Solar 1 on August 11, 2006 for Homicide and Less Serious Physical Injuries.

Status: The Provincial Prosecutor issued a Subpoena directing Petron to file their Counter-Affidavit and other controverting evidence. Petron filed a Manifestation adopting counter-affidavits filed in the previous case (which was dismissed) involving the same issues and charges. The complainants amended their complaint to change the offense charged to violation of the Philippine Clean Water Act and dropping current Petron President Eric O. Recto, the Vice President and Board of Directors as respondents. The Provincial Prosecutor ordered Petron to submit its Comments/Opposition.

Exposure: Potential monetary damages to be awarded to the complainants as well as penalties under the Philippine Clean Water Act of 2004.

Likelihood of Resolution against Petron: Adverse resolution in this case is remote considering the fact that an earlier complaint based on violation of the Clean Water Act had been dismissed by the same Provincial Prosecutor.

**10. Oliver Chavez vs. Petron,  
Sunshine Maritime and Capt. Aguro  
NPS # VI-08-INV-09G-00098;  
Office of the Provincial Prosecutor, Guimaras**

Background: This is a complaint filed on July 29, 2009 by Oliver Chavez, supposedly the Municipal Agriculturist of Nueva Valencia, who claims to be suffering from Pulmonary

Tuberculosis due to his exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill. The respondents are being charged with violation of the Clean Water Act.

Status: On or about August 24, 2009, Chavez filed a Manifestation and Motion to Amend Complaint, changing the offense alleged to violations of Sec 28, par. 5 in relation to Sec 4 of the Phil. Clean Water Act of 2004, and dropping current Petron President Eric O. Recto as respondent. Petron filed a Manifestation adopting counter-affidavits filed in the previous case (which was dismissed) involving the same issues and charges.

Exposure: Potential monetary damages to be awarded to the complainants as well as penalties under the Philippine Clean Water Act of 2004.

Likelihood of Resolution against Petron: Adverse resolution in this case is remote considering the fact that an earlier complaint based on violation of the Clean Water Act had been dismissed by the same Provincial Prosecutor.

## **11. Bataan Real Property Tax Cases**

**Petron vs. Hon. Garcia, Emerlinda Talento , et al.**

**Civil Case No. 8801**

RTC-Balanga, Bataan Br. 3

Date Filed: October 8, 2007

Background: On August 21, 2007, Bataan Provincial Treasurer Emerlinda Talento issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of P2.168 billion allegedly in delinquent real property taxes as of September 30, 2007.

Petron had previously contested the assessments subject of the Notice of Delinquent Real Property Taxes. Petron appealed the same to the Local Board of Assessment Appeals (LBAA), and posted the necessary surety bond to stop collection of the assessed amount. Petron contested the first assessment covering the Isomerization and Gas Oil Hydrotreater (GOHT3) Facilities of Petron which enjoy, among others, a 5-year real property tax exemption under the Oil Deregulation Law (RA 8479) per Board of Investments (BOI) Certificates of Registration. The second assessment is based on alleged non-declaration by Petron of machineries and equipment in its Refinery for real property tax purposes and/or paid the proper taxes thereon since 1994. Petron questioned this second assessment on the grounds that: there was no non-declaration; back taxes can be assessed only for a maximum of 10 years, even assuming fraud; erroneous valuations were used; some adjustments like asset retirement and non-use were not considered; some assets were taken up twice in the assessments; and some assets enjoyed real property tax exemptions.

Notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer proceeded with the publication of the Public Auction of the assets of Petron, which she set for October 17, 2007.

Petron exerted all efforts to explain to the Treasurer that the scheduled auction sale was illegal considering Petron's appeal to the LBAA and the posting of the surety bond. Considering the Treasurer's refusal to cancel the auction sale, Petron filed a complaint for injunction on October 8, 2007 before the Regional Trial Court (RTC) to stop the auction sale. A writ of injunction stopping the holding of the public auction until the case is finally decided was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was

filed before the LBAA by the respondents and the motion was granted by the LBAA on December 10, 2007.

On January 4, 2008, the respondents appealed the RTC's grant of a writ of injunction to the Supreme Court.

On January 17, 2008, Petron appealed from the LBAA's dismissal of its appeal by filing a Notice of Appeal with the Central Board of Assessment Appeals (CBAA).

On June 27, 2008, the Supreme Court dismissed the petition filed by Talento contesting the Order granting the writ of injunction. The Provincial Treasurer filed its Motion for Reconsideration of the Decision. The League of Provinces of the Philippines (LPP) also filed its Motion for Reconsideration-in-Intervention dated August 20, 2008.

Status: On August 13, 2008, the CBAA granted Petron's appeal and remanded the matter of the contested assessments back to the LBAA for resolution.

On September 8, 2008, in the injunction case, the Supreme Court issued a Resolution denying with finality the Motions for Reconsideration of the Provincial Treasurer and the LPP as well as the Motion to Intervene filed by the LPP.

Exposure: If the assessments are finally upheld by the Court, Petron will be made to pay P2.168 billion real property taxes.

Likelihood of Resolution against Petron: Nil. In the first assessment, Petron's exemption from real property taxes is supported by RA 8479 and certified to by the BOI upon endorsement by the Department of Energy. For the second assessment of P1.7 billion, the same will mostly likely be nullified as well because Petron will be able to establish, among others, that all machineries and equipment were declared, the Province made erroneous valuations and there were some adjustments in favor of Petron that were not considered.

## PART II - SECURITIES OF THE REGISTRANT

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

#### (1) Market Information

The registrant's common equity is principally traded at the Philippine Stock Exchange. The high and low sales prices for each period are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price	Date	Price	Date
<b>2009</b>				
1 <sup>st</sup> Quarter	5.90	Feb. 26	4.70	Jan. 8, 9, 19, 21, 22
2 <sup>nd</sup> Quarter	6.00	Apr. 14, 15; May 18, 19, 29; Jun. 1	5.20	Jun. 23
3 <sup>rd</sup> Quarter	5.80	Aug. 11, 13	5.10	Sept. 25, 28, 30
4 <sup>th</sup> Quarter	5.70	Nov. 20	4.95	Oct. 15
<b>2008</b>				
Period	Price	Date	Price	Date
1 <sup>st</sup> Quarter	6.20	Feb. 28, 29; Mar. 5, 6	4.75	Jan. 22
2 <sup>nd</sup> Quarter	6.50	Jun. 23, 24, 25, 30	5.10	May 30
3 <sup>rd</sup> Quarter	6.50	Jul. 1, 4, 7, 9	5.70	Aug. 26
4 <sup>th</sup> Quarter	5.90	Oct. 2, 3, 7	4.20	Nov. 26
<b>2007</b>				
Period	Price	Date	Price	Date
1 <sup>st</sup> Quarter	4.90	Feb. 26	3.95	Jan. 8
2 <sup>nd</sup> Quarter	5.70	Jun. 21	4.70	Apr. 3
3 <sup>rd</sup> Quarter	6.40	Jul. 18, 26	4.65	Aug. 17
4 <sup>th</sup> Quarter	7.20	Nov. 5	5.60	Nov. 21; Dec. 18, 21

The total number of stockholders as of December 31, 2009 was 176,131. Price as of last trading day of the year, December 29, 2009, was ₱5.30 per share.

## (2) Holders

### List of Top 20 Stockholders As of December 31, 2009

Rank	Stockholder Name	Nationality	Total Shares	% of Shares
1	SEA Refinery Corporation	Filipino	4,696,885,564	50.10
2	SEA Refinery Holdings, B.V.	Netherlands	3,794,093,495	40.47
3	PCD Nominee Corp.	Filipino	217,971,275	2.33
4	PCD Nominee Corp.	Non-Filipino	45,054,860	0.48
5	Home Development Mutual Fund	Filipino	18,830,091	0.20
6	Ansaldo Godinez & Co. Inc. FAO Mark V Pangilinan	Filipino	8,000,000	0.09
7	Ernesto Chua Chiaco &/or Margaret Sy Chua	Filipino	7,780,000	0.08
8	Marciano V. Pangilinan	American	5,000,000	0.05
9	Raul Tomas Concepcion	Filipino	3,504,000	0.04
10	Ernesto Chua Chiaco	Filipino	3,450,000	0.04
11	Ernesto Chua Chiaco	Filipino	3,100,000	0.03
12	Ching Hai Go &/or Martina Go	Filipino	2,500,000	0.03
13	Allied Banking Corporation	Filipino	2,145,000	0.02
14	Conrado S. Chua Sr.	Filipino	2,130,000	0.02
15	Shahrad Rahmanifard	Iranian	2,000,000	0.02
16	Frank Chua &/or Genevieve Lim Chua	Filipino	1,453,588	0.02
17	Home Development Mutual Fund Pag-ibig Fund	Filipino	1,335,000	0.01
18	Mateo Lim	Filipino	1,244,500	0.01
19	Consuelo Co Vy	Filipino	1,164,000	0.01
20	South China Petroleum & Expl., Inc.	Chinese	1,147,500	0.01

## (3) Dividends

Petron's dividend policy is to declare as dividends out of the company's unrestricted retained earnings at least 25% of its unappropriated net income (after taxes) for the prior fiscal year, payable either in cash, property or shares. The Board shall determine, by resolution, the exact amount, date and shareholders entitled to such dividends.

On May 7, 2008, the company's Board of Directors declared a cash dividend in the amount of ₱ 0.10/share. Stockholders on record as of June 2, 2008 were paid their dividend on June 27, 2008.

The previous year, on May 3, the Board also declared a cash dividend of ₱0.10 per share. All stockholders on record as of May 28, 2007 were entitled to the dividend and the payment date was June 22, 2007.

No cash dividend was declared in 2009.

#### **(4) Sale of Unregistered or Exempt Including Securities Constituting an Exempt Transaction**

The Company did not sell any securities within the past three years which were not registered under the Code nor did it sell reacquired securities or new issues or sell securities issued in exchange for property, services, or other securities, and new securities resulting from the modification of outstanding securities.

The Board in its meeting on February 27, 2009 endorsed for approval by its stockholders in the annual meeting to be held on May 12, 2009, the increase in its authorized capital stock from P 10 billion to P25 billion (increase of P15 billion) thru the issuance of preferred shares.

In the same Board meeting, the Board delegated to the Executive Committee the authority to determine the principal and other features of the preferred shares. On November 25, 2009, the Executive Committee approved the following features of the preferred shares that were converted from the Company's unissued common shares:

1. The Offer Price of the Preferred Shares will be one hundred pesos (P100.00) per share;
2. The dividend rate of the Preferred Shares will be at fixed rate per annum;
3. Cumulative in payment of current dividends as well as any unpaid back dividends;
4. Non-convertible into common shares;
5. Preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation of the Company and in the payment of the dividend at the rate specified at the time of issuance;
6. Non-participating in any other or further dividends beyond the dividends specifically payable on the Preferred Shares;
7. Non-voting except in those cases specifically provided by law;
8. No pre-emptive rights to any subsequent issue of the Company's shares;
9. Redeemable at the option of the Company; and
10. Dividend rate step-up

#### **(B) Description of Petron's Shares**

The registrant's securities consist of common stock with par value of P1.00 per share. Subsequent to December 31, 2009 Petron has preferred shares with par value of P1.00 per share. Total common shares are 9,375,104,497 which are voting shares, while preferred shares are generally non-voting except in cases provided by law.

### **(C) Stock Ownership Plan**

Currently, Petron does not have a stock ownership plan or program. In 1994, when Petron's initial public offering (IPO) was undertaken, a special secondary sale of Petron's shares was offered to employees. 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 SOP.

## PART III - FINANCIAL INFORMATION

### Management's Discussion and Analysis (MD&A) or Plan of Operation

#### Financial Condition and Results of Operations

(For convenience, U.S. dollar information in the following discussion has been translated into Philippine pesos at the exchange rate of **₱ 46.20** to US\$1.00, the Philippine peso - U.S. dollar rate as quoted by the Philippine Dealing System as of December 31, 2009.)

#### Results of Operations

##### 2009 vs. 2008

Petron bounced back to profitability in 2009, posting a **net income of ₱ 4.26 billion** versus the record **loss of ₱ 3.92 billion** in 2008. The Company attributed its strong performance to more stable crude and finished product prices in 2009 relative to the year before. It would be recalled that 2008 was an abnormal year for many oil refiners who experienced extreme volatility in crude prices when the demand for oil contracted resulting in the steep decline in refined product prices starting in the third quarter of 2008 to first quarter of 2009. Nevertheless, Petron was able to maximize trading gains during the first quarter of 2009 with the sale of cheaper imported products due to the total shutdown of its Refinery until mid-February 2009. Earnings were further boosted by foreign exchange gains versus losses the previous year as Philippine peso strengthened vis-à-vis the US dollar in 2009 favoring the Company's foreign-denominated transactions.

**Sales volume** dropped to **44.16 million barrels (MMB)** from 2008's level of 49.66MMB. The 11% or 5.50MMB decline in volume was traced essentially to lower exports and supply sales (by 5.80MMB). This was partly offset by the slight increase in domestic volumes (by 0.3MMB) due mainly to the growth in kerojet and petrochemical sales.

**Net Sales** were down by 34% or **₱ 91.15 billion** due to lower average selling prices of petroleum products (2009 per liter: **₱ 24.54** vs. 2008: **₱ 33.37**). From **₱ 267.68 billion** in 2008, sales dropped to **₱ 176.53 billion** in 2009.

**Cost of Goods Sold (CGS)** dipped to **₱ 161.58 billion** from previous year's **₱ 264.31 billion**. The substantial reduction was brought about mainly by lower duty paid landed cost (DPLC) per liter of crude this year that formed part of CGS at an average of **₱ 19.39** versus **₱ 29.77** in 2008. Moreover, as prices had become more stable, inventory write-down declined significantly to only **₱ 0.08 billion** at end-2009 compared to year-end 2008 of **₱ 2.43 billion** when crude prices dropped sharply starting August until March 2009.

**Refinery Operating Expenses (OPEX)** that went into CGS rose by 14% or **₱ 0.65 billion** from last year's **₱ 4.54 billion** to **₱ 5.19 billion**. The highest expense was on non-cash depreciation charges largely due to the completion of the BTX (Benzene, Toluene Extraction) unit. Under cash operating expenses, increases were posted in maintenance and repairs related to the fire incident in November 2008, purchased power and other services as well as on real property taxes with the completion of new projects. Owing to the rise in OPEX coupled with the reduction in crude run (2009: 91 mbd vs. 2008: 114 mbd), **cost per liter of crude** processed increased by 42% or **₱ 0.29** from 2008's **₱ 0.69**.

**Selling & Administrative Expenses** surpassed 2008 level of **₱ 5.22 billion** by 10% to **₱ 5.75 billion**. Increased non-cash expenditures were noted on higher accrual of pension expense and cash expenses

particularly purchased services, rent, employee-related costs, maintenance and repairs and materials and supplies. **OPEX per liter** climbed by 24% or **₱ 0.16** to **₱ 0.82** this year from the previous year's **₱ 0.66** owing to the decline in sales volume.

**Net Financing Costs & Other Charges** stood at **₱ 3.45 billion** or 12% lower than 2008's level of **₱ 3.94 billion**. While financing costs rose due to increased interest rates with the issuance of **₱ 10 billion FXCN** in June 2009, this was mitigated by foreign exchange gains versus losses in 2008 due to more stable Philippine peso against the US dollar.

**Income tax expense** of **₱ 1.49 billion** was a reversal from the **₱ 1.87 billion** tax benefit in 2008 due essentially to the net income this year.

With the positive bottom line, **earnings per share** grew by 207% to **₱ 0.45** in 2009 from negative **₱ 0.42** the year before.

### 2008 vs. 2007

With a four-month consecutive operating losses starting September, the Company suffered a **net loss of ₱ 3.92 billion** in 2008, a reversal from the **₱ 6.39 billion net income** in 2007. The significant decline in the Company's bottom line was largely attributed to contraction in margins (Gross Profit 2008 **₱ 3.37 billion** vs. 2007's **₱ 15.23 billion**) as domestic prices fell at a faster rate than crude costs starting the third quarter while increased borrowing levels to finance the expensive crude in the first half of the year led to higher financing costs (by **₱ 2.37 billion**). The global financial crisis also resulted in rising interest rates for all of the Company's borrowings. This was exacerbated by weaker US dollar and volatility of international crude and product prices that resulted in exchange losses and rising hedging costs. However, the tax benefit of **₱ 1.87 billion** due largely on the effect of the Net Operating Loss Carry-over (NOLCO) partly reduced the loss before income tax of **₱ 5.79 billion** to a negative bottom line of **₱ 3.92 billion**.

**Sales volume** registered an overall 2.57 million barrels drop from last year's 52.26 million barrels to **49.69 million barrels** in 2008. Export sales suffered cut back by 18% (1.86 MMB) while domestic demand decreased by 2% (0.7 MMB) resulting from record-high fuel prices.

**Net Sales** surpassed the 2007 level by **₱ 57.16 billion** from **₱ 210.52 billion** to **₱ 267.68 billion** this year due to successive price increases during the first half of the year. This was complemented by lighter sales mix with the commissioning of the Company's Petro Fluidized Catalytic Cracking Unit (PFCCU) and Propylene Recovery Unit (PRU) that had enabled the refinery to convert a portion of its fuel oil volume to higher valued white products, such as propylene, LPG and gasoline.

**Cost of Goods Sold (CGS)** rose to **₱ 264.31 billion** from the year-ago figure of **₱ 195.29 billion**. Higher duty paid landed cost (DPLC) per liter of crude this year that formed part of CGS was pegged at an average of **₱ 29.72** versus **₱ 20.28** in 2007. Moreover, as experienced by other refineries in the region in the aftermath of the steep decline in crude and product prices, the Company also considered a mark down of its inventory amounting to **₱ 2.43 billion**. Crude volatility reached 300% as crude peaked at **US\$141/bbl** in July and crashed to **US\$40** in December triggering a continued fall in the regional prices of petroleum products.

**Refinery Operating Expenses** that went into CGS escalated by **₱ 1.06 billion** from prior year's **₱ 3.48 billion** to **₱ 4.54 billion**. Increased expenditures were recorded on depreciation of the new PFCCU and PRU; maintenance/re-servicing works related to conversion of the Thermoform Catalytic Cracker Unit to PFCCU and deferred turnaround of Atmospheric Pipestill; and, purchased utilities caused by the transfer of the Gas Oil Hydrotreater power from internal to external source to accommodate the power requirement of the PFCCU.

Owing to increased operating expenses (OPEX) and reduced crude run (2008: 113 mbd vs. 2007: 129 mbd), **cost per liter of crude processed** increased by 48% or **₱ 0.22** over 2007's **₱ 0.47**.

**Selling & Administrative Expenses** were trimmed down by 2% (**₱ 0.11 billion**) from **₱ 5.33 billion** the preceding year to **₱ 5.22 billion** this year. Reduced expenditures were noted under business expenses resulting from decreased sponsorships; employee-related costs; and, materials and supplies with the deferral of LPG cylinder purchases.

**OPEX per liter** rose slightly by **₱ 0.01** from the previous year's level as sales volume declined by 5% or 2.57 million barrels.

**Net Financing Costs & Other Charges (₱ 3.94 billion)** rose more than seven times compared the corresponding period in 2007 (**₱ 0.56 billion**). The Company's higher financing costs were mainly the outcome of the increase in level of borrowings (due to expensive crude and product imports) and higher interest rates due to the global financial crisis (2008: **₱ 36.39 billion** at 7.2% vs. **₱ 21.34 billion** at 5.4%). Thus, the **₱ 4.18 billion** interest expense largely on short-term peso loans more than doubled the previous year's **₱ 1.81 billion** total. Meanwhile, the foreign exchange (forex) and hedging activities on dollar-denominated transactions in 2008 resulted in losses and hedging costs of **₱ 1.0 billion**, a reversal from the forex and hedging gains of **₱ 1.2 billion** the year before.

**Loss per share** of **₱ 0.42** in 2008 was a turnabout from the earnings per share of **₱ 0.68** in 2007. Consequently, the net loss resulted to negative **1.5% return on net sales**.

#### 2007 vs. 2006

The Company performed better in 2007 as it posted a **net income** of **₱ 6.40 billion**, 6% higher than the **₱ 6.02 billion** level the year before. Incremental profit was derived from improved margins (**₱1.02 billion**) and lower non-operating charges (**₱1.27 billion**) owing to a stronger peso as well as lower financing costs. However, the improvement in the bottom line was significantly reduced by the sharp increase in income tax expense (**₱1.07 billion**) as a consequence of the expiration of the income tax holiday on mixed xylene sales coupled with the escalation in operating expenses (**₱0.84 billion**).

Total **volume sold** in 2007 stood at 52.3 MMB, slightly higher than last year's 52.0 MMB level. While domestic demand increased by 0.8 MMB, this was substantially offset by the decline in export sales (0.5 MMB).

**Net Revenues** drop slightly by **₱ 1.21 billion** to **₱ 210.52 billion** from **₱ 211.73 billion** a year earlier on account mainly of decline in selling prices because of the appreciation of the peso and heavier sales mix (2007 - 35% B vs. 2006 - 32% B).

**Cost of Goods Sold (CGS)** went down (by 1% or **₱ 2.23 billion**) to **₱ 195.29 billion** from the **₱ 197.51 billion** the previous year. The reduced CGS level was brought about largely by lower duty paid landed cost (DPLC) per liter of crude that went into cost (2007 average: **₱ 20.05** vs. 2006 average: **₱ 21.35**).

**Refinery Operating Expenses** (which form part of cost of sales) rose to **₱ 3.48 billion**, from the **₱ 3.24 billion** level the year before. The 7% or **₱ 0.24 billion** escalation in expenses from last year's figure was principally due to increased maintenance/repair works and employee costs related to turnaround and shutdown of various process units as well as the replacement of catalysts for the Continuous Catalyst Regeneration (CCR) and Gas Oil Hydro Treater (GOHT) units.

Increased level in operating expenses (opex) and reduced crude run (2007: 129 mbd vs. 2006: 135 mbd) pushed **cost per liter of crude processed** to **₱ 0.47** from last year's **₱ 0.41**.

**Selling & Administrative Expenses** of **₱ 5.33 billion** showed a 19% (₱ 0.84 billion) increase from previous year's level attributed mostly to higher advertising expenses, employee costs and purchased services.

The escalation in opex negated the effect of the incremental sales volume, resulting in a higher **Peso per Liter Cost** at **₱ 0.64** than the **₱ 0.54** of the previous year.

**Net Financing Costs and Others Charges** stood at **₱ 0.56 billion**, less than a third of the **₱ 1.83 billion** posted a year earlier. The stronger peso generated foreign exchange (forex) gains of **₱ 0.90 billion**, a reversal of the **₱ 0.10 billion** forex loss in 2006. In addition, interest expense on short-term borrowings was lower, attributed largely to the drop in average borrowing level and rate (2007: **₱ 21.34 billion** at 5.4% vs. 2006: **₱ 23.87** at 6.7%).

**Earnings per share** increased by **₱ 0.04** to **₱ 0.68** from the previous year. Likewise, **return on sales** went up to **3.0%** from last year's **2.8%**.

## Financial Condition

### 2009

Petron's total **asset base** as at year-end 2009 posted a modest growth of 1% or **₱ 1.39 billion** to close at **₱ 113.19 billion** from **₱ 111.80 billion**.

Financial assets at fair value through profit or loss **slightly went up from ₱ 0.16 billion to ₱ 0.17 billion**, stemmed mainly from the escalation in market values of investments in marketable equity securities and proprietary membership shares.

**Available-for-sale investments** (current and noncurrent) nearly doubled to **₱ 1.36 billion** from last year's balance of **₱ 0.68 billion** as the Company's insurance subsidiaries increased its investments in government securities and ROP bonds.

**Trade and Other Receivables-net** surged to **₱ 29.70 billion** from **₱ 16.88 billion** essentially on account of the filing of claims from government agencies on tax refund; and from trade accounts due to higher selling prices towards year-end.

**Inventories-net** declined by 9% or **₱ 2.62 billion** to settle at **₱ 28.17 billion** this year from **₱ 30.79 billion** a year earlier. The substantial drop in volumes (by 3.2MMB valued at **₱ 9.53 billion**) more than offset higher costs (December 2009: **₱ 26.97** per liter vs. December 2008: **₱ 19.62** per liter) translated to **₱ 6.85 billion**.

**Other current assets** posted decline of 63% or **₱ 7.51 billion** to **₱ 4.47 billion** from **₱ 11.98 billion** essentially due to the filing of Input VAT claims which had been reclassified to receivables account.

**Property, plant and equipment (PPE)-net** showed a reduction of 5% or **₱ 1.64 billion** to **₱ 34.78 billion** from **₱ 36.43 billion** as there were no major additions during the year. On the other hand, the BTX unit started commercial operations in April 2009.

**Investment properties-net** were lower by **₱ 0.01 billion** compared with prior year's **₱ 0.25 billion** attributable mainly to depreciation charges for the year.

**Deferred tax assets-net** decreased significantly to **₱ 0.01 billion** relative to 2008's **₱ 0.88 billion** due to the combined effect of the inventory differential (MAP vs. FIFO) and the reversal in 2009 of the 2008 inventory write down.

**Other non-current assets-net** at **₱ 1.33 billion**, registered a 44% or **₱ 0.40 billion** increase versus a year-ago balance of **₱ 0.93 billion** due to gains in pension assets as well as additional prepayments during the period.

**Short-term loans and supplier's credit** declined by 20% or **₱ 12.61 billion** from **₱ 62.89 billion** to **₱ 50.27 billion** triggered mainly by lower levels of crude and product purchases towards year-end.

**Trade and other payables** moved up to **₱ 4.92 billion** from last year's **₱ 4.56 billion** traced largely to higher accrual of operating expenses and unpaid interest partly offset by the settlement of retention payables to the contractors of the completed BTX project.

**Long-term debt inclusive of current portion** rose by 84% or **₱ 8.64 billion** to **₱ 18.89 billion** pertaining to the issuance of the **₱ 10 billion FXCN** in June 2009 partly reduced by the quarterly amortization of other peso loans.

**Income tax payable** went down to **₱ 0.01 billion** from **₱ 0.02 billion** (by 55% or **₱ 0.01 billion**) resulting from lower tax liabilities of the subsidiaries.

**Deferred income tax liabilities** rose to **₱ 0.5 billion** from a minimal amount the previous year attributable to the temporary differences in the computation of income tax, particularly the reversal this year of inventory write down in 2008.

**Other non-current liabilities** recorded a 10% or **₱ 0.11 billion** reduction as against last year's **₱ 1.17 billion** influenced mainly by the effect of change in discount rate for Asset Retirement Obligation (ARO).

**Retained Earnings** recorded an 18% or **₱ 4.24 billion** growth to **₱ 28.01 billion** from **₱ 23.78 billion** representing the parent net income for the year.

**Other reserves'** negative balance decreased to **₱ 0.09 billion** from **₱ 0.47 billion** in 2008 due to the recognition of actuarial gains on the Company's pension assets.

## 2008

Petron's consolidated resources as at December 31, 2008 rose to **₱ 111.80 billion** (by 7% or **₱ 7.32 billion**) over end-December 2007 balance of **₱ 104.47 billion**.

**Cash and cash equivalents** went up by 32% or **₱ 3.10 billion** to **₱ 12.83 billion** as cash cycle shortened to 53 days from 70 days in 2007.

Financial assets at fair value through profit or loss decreased by 30% (**₱ 0.07 billion**) from **₱ 0.23 billion** to **₱ 0.16 billion**, brought about by the drop in market values of investments in marketable equity securities and proprietary membership shares.

**Available-for-sale investments** (current and noncurrent) rose slightly to **₱ 0.68 billion** from last year's balance of **₱ 0.63 billion** as the Company increased its investment in government securities.

**Receivables-net** slid to **₱ 16.88 billion** from **₱ 17.87 billion** on account primarily of higher collections from trade accounts partly offset by the increase in VAT and specific tax (SPT) claims. The increase in SPT claims was driven by the product replenishment scheme implemented by the BIR in March 2008.

**Inventories**, at net realizable value, registered a minimal increment of **₱ 0.52 billion** to settle at **₱ 30.79 billion** in 2008. The 565 MB build-up in volume of finished products valued at **₱ 2.00 billion** was

partly offset by the drop in product cost (December 2008; ₱ 19.62 per liter vs. December 2007: ₱ 22.31 per liter) amounting to ₱ 1.70 billion.

**Other current assets** showed an increase of 12% (₱ 1.31 billion) to **₱ 11.98 billion** from ₱ 10.67 billion traced mainly to the increase in Input VAT and product replenishment claims.

**Property, plant and equipment** grew by 7% or ₱ 2.31 billion to **₱ 36.43 billion** primarily on account of capital investments in the Refinery, particularly PFCCU (₱ 1.09 billion) and the construction of Benzene, Toluene, and Mixed Xylene (BTX) plant (₱ 2.51 billion).

**Investment properties** were higher by ₱ 0.04 billion compared with prior year's ₱ 0.21 billion driven mainly by real estate acquisitions for future service station sites.

**Deferred tax assets** rose significantly to **₱ 0.88 billion** relative to 2007's ₱ 0.001 billion traced largely to the NOLCO (Net Operating Loss Carry-Over).

**Other non-current assets** closed at **₱ 0.92 billion**, posting a 25% (₱ 0.19 billion) increment over the previous year brought about mainly by increased long-term receivables.

**Short-term loans and supplier's credit** moved up by 35% (₱ 16.23 billion) to **₱ 62.89 billion** due essentially to higher borrowing level to augment working capital requirements.

**Accounts payable and accrued expenses** inched up to **₱ 4.56 billion** from last year's ₱ 4.54 billion traced largely to liabilities to contractors and suppliers as well as accrual of operating expenses and interest on loans.

**Long-term debt inclusive of current portion** decreased by 20% (₱ 2.53 billion) to **₱ 10.25 billion** traceable to the settlement of the NORD loan in December amounting to US\$45 million.

**Income tax payable** went down to **₱ 0.02 billion** (by 96% or ₱ 0.50 billion) as a result of the net loss reported by the parent company.

**Deferred income tax liabilities** declined by 99% to **₱ 0.01 billion** attributable to the temporary differences, particularly the recognized NOLCO and MCIT (Minimum Corporate Income Tax).

**Other non-current liabilities** went up by 28% (₱ 0.25 billion) mainly because of the increment in Asset Retirement Obligation.

**Retained Earnings** slid by ₱ 4.92 billion to **₱ 23.78 billion** as a result of the combined effect of the net loss reported by the parent company and dividends declaration amounting to ₱ 3.92 billion and ₱ 0.94 billion, respectively.

**Other reserves'** negative balance increased to **₱ 0.47 billion** influenced mainly by the recognition of actuarial loss on the Company's pension fund.

## 2007

Petron's consolidated resources as of December 31, 2007 stood at **₱ 104.47 billion**, recording a 19% growth from the end-December 2006 level of ₱ 87.52 billion.

Financial assets at fair value through profit and loss increased by **₱ 0.05 billion (27%) to ₱ 0.23 billion**, brought about by the appreciation of the value of investments in marketable equity securities and proprietary membership.

**Receivables-net** rose by P 2.24 billion to P 17.87 billion on account largely of higher sales posted for exports.

**Inventories** climbed to P 30.27 billion or an increase of P 3.98 billion, despite the 705 MB drawdown in inventory valued at P 2.75 billion. This was attributed to the spike in crude cost (December 2007: P 30.65 per liter vs. December 2006: P 19.98 per liter) equivalent to P 6.35 billion coupled with the hike in product cost (December 2007; P 22.31 per liter vs. December 2006: P 21.74 per liter) amounting to P 0.36 billion.

**Other current assets** escalated by P 3.62 billion to P 10.67 billion attributed mostly to input VAT payments and prepaid taxes/duties.

**Property, plant and equipment** of P 34.13 billion showed a significant increase (P 8.98 billion) due to investments in the Philippines' first petrochemical feedstock facilities. Capital expenditures for the refinery's Petro Fluidized Catalytic Cracking (PetroFCC) stood at P 6.19 billion, while P 1.76 billion was spent for the Propylene Recovery Unit (PRU). Total investment costs for the two units amounted to P 8.98 billion and P 2.37 billion, respectively.

**Investment Properties** were lower by P 0.02 billion as land acquisitions were offset by land disposals and depreciation of office units.

**Other non-current assets** went up to P 0.74 billion on account largely of actuarial gain on defined pension plan.

The increase in resources was tempered by the substantial cash outlay on major capital investments resulting in a lower **Cash and Cash Equivalents** level at P 9.73 billion from end-December 2006 of P 11.74 billion.

**Short-term Loans and Supplier's Credit** were higher by P 10.98 billion as a consequence of the spike in crude FOB price per barrel (2007- P 3,688 vs. 2006 -P 2,963).

**Accounts payable and accrued expenses** moved up to P 4.54 billion driven by higher liabilities to contractors and suppliers as a result of the construction of the PetroFCC and PRU units.

**Income tax payable** rose to P 0.52 billion trace mainly to the expiration of the income tax holiday on Mixed Xylene in December 2006.

**Deferred income tax liabilities** went down by P 0.18 billion to P 1.27 billion essentially due to inventory differential (MAP vs. FIFO).

**Other non-current liabilities** slid to P 0.91 billion prompted by the change in discount rate applied on the company's Asset Retirement Obligation (ARO).

**Appropriated Retained Earnings** increased to P 21.17 billion following the approval of the Board to set aside P 4.15 billion of the unrestricted earnings for future capital investments.

**Unappropriated Retained Earnings** were higher by only P 1.29 billion as the total comprehensive income of P 6.38 billion was significantly offset by the appropriation for capital projects as well as cash dividends declared for the year 2007.

**Other reserves'** negative balance went down to P 0.41 billion influenced mainly by the recognition of actuarial gains on the company's pension fund.

## Cash Flows

### 2009 vs. 2008

With a strong EBITDA, the Company's net cash inflow from operating activities soared to P 4.33 billion from a negative outflow of P 3.52 billion in 2008.

### 2008 vs. 2007

Petron generated an operating cash outflow of P 3.52 billion, a turnabout from the P 5.66 billion inflows the previous year. The negative cash flow was influenced largely by the sharp decline in cash earnings coupled with higher borrowing level.

### 2007 vs. 2006

Net cash inflows from operating activities of P 5.66 billion registered an 84% (P 2.59 billion) growth from P 3.08 billion a year earlier. The company was able to manage its working capital despite rising crude prices by striking a balance between the increase in inventory and the corresponding increase in liabilities on importations. The 4% (P 0.54 billion) incremental cash earnings also contributed to the improved net operating cash level. Internally generated funds and proceeds from the club loan were utilized to fund its capital projects.

## Financial Condition

Item 7. Financial Statements	2009	2008	2007
<b>b) Cash and Cash Equivalents</b>			
Cash in bank (Peso)	861	2,386	2,273
Cash in bank (US\$)	699	392	1,112
Cash on hand	3,101	4,536	2,862
Marketable securities	8,324	5,513	3,485
<b>Total</b>	<b>12,985</b>	<b>12,827</b>	<b>9,732</b>
<b>c) Accounts Receivables-Others</b>			
Borrow and loan	327	199	237
Others	3,733	2,303	1,099
<b>Total</b>	<b>4,060</b>	<b>2,502</b>	<b>1,336</b>
<b>d) Selling and Administrative Expenses</b>			
Depreciation and amortization	1,081	1,070	978
Employee costs	1,628	1,375	1,481
Purchased services and utilities	1,332	1,202	994
Maintenance and repairs	522	482	530
Advertising	222	235	495

Rent expense	479	411	395
Materials and office supplies	212	181	188
Expenses Related to oil spill incident in Guimaras	-	-	15
Taxes and licenses	136	136	120
Impairment loss on trade and other receivables/ receivables written-off	58	71	50
Others	81	59	79
<b>Total</b>	<b>5,751</b>	<b>5,222</b>	<b>5,325</b>
<b>e) Other Income, Interest Expense and Others</b>			
Interest income	205	354	344
Interest expense	(4,251)	(4,180)	(1,814)
Rent income	346	357	325
Derivatives- net mark to market (MTM) gain (loss)	(409)	179	(603)
Foreign exchange gain (loss) - net	146	(1,707)	2,283
Commodity hedging gain (loss)	461	1,159	(806)
Changes in fair value of financial assets at FVPL	22	(67)	49
Insurance claims	172	33	16
Gain on ARO settlement	14	8	-
Miscellaneous	(155)	(77)	(352)
<b>Net</b>	<b>(3,449)</b>	<b>(3,941)</b>	<b>(558)</b>

#### Top Five (5) Key Performance Indicators

Ratio	Dec-09	Dec-08	Dec-07
Current Ratio	1.3	1.1	1.3
Debt Equity Ratio	2.0	2.4	1.8
Return on Equity (%)	12.1	(11.1)	18.3
Debt Service Coverage	4.2	1.2	3.2
Tangible Net worth	P37.5B	P 32.9B	P 37.8B

**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 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 balance sheet. 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.

**Debt Service Coverage** - Free cash flows add available closing cash balance divided by projected debt service.

This ratio shows the cash flow available to pay for debt to the total amount of debt payments to be made. It also measures the company's ability to settle dividends, interests and other financing charges.

**Tangible Net Worth** - Net worth minus intangible assets.

This figure gives a more immediately realizable value of the company.

### **Exchange Rate Volatility**

The peso has remained stable during the whole 2009 hovering at ₱ 46-48/US\$ range and averaged ₱ 47.64/US\$. Despite lower dollar inflows from declining exports, OFW remittances and portfolio and direct investments growth supported stable peso. Risk appetite also improved as emerging markets proved to be relatively resilient amidst the economic crisis while developed economies suffered most. Stable peso lessens heavy fluctuations of oil production costs and prevents significant movement in value of the Company's foreign-denominated debts.

### **Known Trends**

#### **Crude Prices**

After the sharp plunge of oil prices in the second half of 2008, prices quickly recovered in 2009. From Dubai's 2008 year-end level at below US\$40/bbl, prices climbed up and reached almost US\$80/bbl in early December 2009. This brings Dubai FY 2009 average at US\$61.9/bbl. Though this is still significantly lower than 2008 average of US\$94.2/bbl, this is a remarkable recovery of almost 100% since the start of the year. Optimism on global economic recovery and speculation in the oil market propped up prices.

#### **Inflation and Interest Rates**

Commodity prices eased in 2009 and inflation averaged 3.2% from 9.3% in 2008. Lower oil prices compared to levels in 2008 and the slow price hike of food and other commodities contributed to the benign inflation. Prices bottomed in August 2009 with 0.1% inflation and climbed up to 4.4% in December. Towards the end of 2009, inflation picked up due to base effect and the supply disruptions of commodities in October when heavy typhoons caused severe flooding and massive damage to agriculture and infrastructure.

With subdued inflation and sufficient liquidity, Bangko Sentral ng Pilipinas (BSP) was able to maintain its policy rates at record low of 4% for its overnight borrowing rate and 6% for overnight lending rate. This is also to support the economy, encourage borrowing and spending and stimulate economic activity in the country. In effect, 2009 interest rates in the financial markets were also low compared to 2008. 3-Month PDST-F averaged 4.4% from 5.7% in 2008 while 91-day T-bills averaged 4% from 5.2% in 2008.

**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 (TCC) Related Cases**

In 1998, the Company contested before the Court of Tax Appeals (CTA) the collection by the BIR of deficiency excise taxes arising from the Company's acceptance and use of Tax Credit Certificates (TCCs) worth P659 million from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, 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 where the case is still pending. The Court of Appeals issued a resolution suspending decision on the case until the termination of the DOF investigation on the TCCs assigned to Petron. Petron filed a motion for reconsideration which remains unresolved as of this date. Petron filed a Motion for Re-raffle requesting the re-raffle of the case and its immediate resolution.

In November 1999, the BIR issued an assessment against the Company for deficiency excise taxes of P284 million plus interest and charges for the years 1995 to 1997, as a result of the cancellation by the Department of Finance (DOF) Center ExCom of Tax Debit Memos (TDMs), the related TCCs and their assignments. The Company contested on the grounds that the assessment has no factual and legal bases and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000. On August 23, 2006, the Second Division of the CTA rendered its Decision denying the Company's petition and ordered it to pay the BIR P580 million representing deficiency excise taxes for 1995 to 1997 plus 20% interest per annum from December 4, 1999. The Company's motion for reconsideration was denied on November 23, 2006. The Company appealed the Division's Decision to the CTA En Banc. On October 30, 2007, the CTA En Banc dismissed the Company's appeal, with two of four justices dissenting. The Company filed its appeal on November 21, 2007 with the Supreme Court. On December 21, 2007, in the substantially identical case of Pilipinas Shell, the Supreme Court decided to nullify the assessment of the deficiency excise taxes and declared as valid Pilipinas Shell's use of Tax Credit Certificates for payment of its tax liabilities. On November 7, 2008, the Supreme Court gave due course to the Company's appeal and directed the Company to file its Memorandum. After the parties filed their respective memoranda, the case is now submitted for resolution.

In May 2002, the BIR issued a collection letter for deficiency taxes of P254 million plus interest and charges for the years 1995 to 1998, as a result of the cancellation of TCCs and TDMs by the DOF Center ExCom. The Company 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. The Second Division of the CTA promulgated a decision on May 4, 2007 denying our Petition for Review for lack of merit. The Company was ordered to pay the respondent the reduced amount of P601 million representing the Company's deficiency excise taxes for the taxable years 1995 to 1998. In addition, the Company was ordered to pay the BIR 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. The Company's Motion for Reconsideration was denied on August 14, 2007. The Company appealed to the CTA En Banc.

On December 3, 2008, the CTA En Banc promulgated a decision reversing the unfavorable decision of the CTA 2nd Division. The CIR filed a Petition for Review with the Supreme Court. The Supreme Court directed Petron to file comment on the petition in the Resolution dated February 4, 2009. Petron's Comment was filed on April 20, 2009.

It should be noted that there are duplications in the TCCs subject of the three assessments. Excluding these duplications, the basic tax involved in all three assessments represented by the face value of the related TCCs is P911 million.

The Company does not believe these tax assessments and legal claims will have an adverse effect on its consolidated financial position and results of operations. The Company's external counsel's analysis of

potential results of these cases was subsequently supported by the Decision of the Supreme Court in the case of Pilipinas Shell and in the Decision of the CTA En Banc on December 3, 2008.

### **Pandacan Terminal Operations**

The City Council of Manila, citing concerns of safety, security and health, passed City Ordinance No. 8027 reclassifying the areas occupied by the Oil Terminals of Petron, Shell and Chevron from Industrial to Commercial, making the operation of the Terminals therein unlawful. Simultaneous with efforts to address the concerns of the City Council with the implementation of a scale down program to reduce tankage capacities and joint operation of facilities with Shell and Chevron, the Company filed a petition to annul city Ordinance No. 8027 and enjoin the City Council of Manila, as well as Mayor Joselito Atienza from implementing the same.

Thereafter, the City of Manila approved the Comprehensive Land Use Plan and Zoning Ordinance (CLUPZO) (Ordinance No. 8119) that allows The Company a seven-year grace period. The passage of Ordinance No. 8119 was thought to effectively repeal Manila Ordinance No. 8027. However, on March 7, 2007, the Supreme Court rendered a Decision in the case of SJS Society vs. Atienza, directing the Mayor of Manila to immediately enforce Ordinance No. 8027.

On March 12, 2007, the Company, together with Shell and Chevron, filed an Urgent Motion for Leave to Intervene and Urgent Motion to Admit Motion for Reconsideration of the decision dated March 7, 2007, citing that the Supreme Court failed to consider supervising events, notably (i) the passage of Ordinance No. 8119 which supersedes Ordinance No. 8027, as well as (ii) the writs of injunction from the RTC presenting the implementation of Ordinance No. 8027, the Supreme Court's decision and the enforcement of Ordinance No. 8027 improper. Further, The Company, Shell, and Chevron noted the ill-effects of the sudden closure of the Pandacan Terminals on the entire country.

As a result of the passage of Ordinance No. 8119, on April 23, 2007, upon motion of the Company, the Mayor of Manila and the City Council, on the ground that the issues raised in said case has become academic, the RTC dismissed the case filed by the Company questioning Ordinance No. 8027.

On February 13, 2008, the Supreme Court allowed the oil companies' intervention but denied their motion for reconsideration, declaring Manila City Ordinance No. 8027 valid and applicable to the oil terminals at Pandacan. The Court dissolved all existing injunctions against the implementation of the ordinance and directed the oil companies to submit their relocation plans to the Regional Trial Court within 90 days to determine, among others, the reasonableness of the time frame for relocation. On February 28, 2008, the Company, jointly with Chevron and Shell, filed its motion for reconsideration of the Resolution. On May 13, 2008, the three oil companies submitted their Comprehensive Relocation Plans in compliance with the February 13 Resolution of the Supreme Court.

Social Justice Society (SJS), Vladimir Cabigao and Bonifacio Tumbokon filed before the Supreme Court a Motion to stop the City Council of Manila from further hearing the amending ordinance to Ordinance No. 8027. Petitioners alleged that the proposed amendment is "a brazen and malicious attempt by the City of Manila to thwart the Supreme Court's 7 March 2007 decision and 13 February 2008 resolution on the case." To date, the Supreme Court has not issued any TRO or Order granting the motion filed by the petitioners.

On May 28, 2009, Mayor Alfredo Lim of Manila approved and signed proposed Ordinance 7177 (which became Ordinance No. 8187) repealing Ordinance No. 8027 and 8119 and allowing the continued stay of the oil depots at Pandacan.

On June 1, 2009, SJS officers filed a petition for prohibition against Mayor Lim before the Supreme Court, seeking the nullification of Ordinance 8187. On June 5, 2009, former Manila Mayor Lito Atienza filed his own petition with the Supreme Court seeking to stop the implementation of Ordinance 8187.

The Court has ordered the City to file its comment but the Court did not issue a temporary restraining order. The City filed its Comment on August 13, 2009.

### **Oil Spill Incident in Guimaras**

M/T Solar I sunk 13 nautical miles southwest of Guimaras in rough seas on August 11, 2006 en route to Zamboanga, loaded with about 2 million liters of industrial fuel oil.

The Company immediately dispatched its oil spill gear, equipment and oil spill teams upon receiving information of the incident. An aerial and surface assessment was conducted to determine the extent of the spill.

Inspection by the Survey Ship Shinsei Maru, using a remote-operated vehicle (ROV), found the vessel upright with minimal traces of leakage. All cargo compartment valves were tightened by the ROV to ensure against further leakage. The Shinsei Maru was contracted by the Protection and Indemnity (P&I) Club and the International Oil Pollution Compensation (IOPC) from Fukada Salvage & Marine Works Co. Ltd.

On separate investigations by the Special Task Force on Guimaras by the Department of Justice and the Special Board of Marine Inquiry (SBMI), both found the owners of M/T Solar I, Sunshine Marine Development Corporation (SMDC) liable. The DOJ found no criminal liability on the part of The Company. However, 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 implemented a “Cash for Work” program involving residents of the affected areas in the clean-up operations and mobilized its employees to assist in the operations. By the middle of November 2006, the Company had cleaned up all affected shorelines and was affirmed by the inspections made by Taskforce Solar 1 Oil Spill (SOS), a multi-agency group composed of officials from the Local Government Units, Departments of Health, Environment and Natural Resources, Social Welfare and Development, and the Philippine Coast Guard.

The Company collected a total 6,000 metric tons of debris which were brought to the Holcim Cement facility in Lugait, Misamis Oriental for processing/treatment of waste. On November 20, 2006, one of the last barge shipments of oil debris unfortunately sunk en route to the same plant.

The Company worked closely with the provincial government, Department of Welfare and Social Development (DSWD), Department of Agriculture (DA), Technical Education and Skills Development Authority (TESDA), the Philippine Business for Social Progress (PBSP), in developing livelihood programs for the local community. Last November 27, 2006, the Company held a scientific conference in cooperation with the University of the Philippines - Visayas, the National Disaster Coordinating Council (NDCC), the World Wildlife Fund (WWF) and the Guimaras Provincial Government with the objective of developing an integrated assessment and protocol for the rehabilitation of the province. On top of providing alternative livelihood for affected Guimarasnons, the Company has established programs and facilities aimed at helping improve basic education in the province.

The Company also established a mari-culture park at the Southeast Asian Fisheries Development Center (SEAFDEC) area in the town of Nueva Valencia in August 2007. Several representatives from nearby barangays received hands-on training including the construction of fish cages, stocking of fingerlings, feeding, maintenance work on the fish cages, harvesting and packaging for shipment to ensure that the program is sustainable.

With regard to the retrieval of the remaining oil still trapped in M/T Solar I, the P & I contracted a sub-sea systems technology provider (Sonsub) to recover the oil from the sunken vessel. Oil recovery operation was technically completed on April 1, 2007. A total of 9,000 liters of oil was recovered.

Representatives from the IOPC met with the claimants from various affected areas of Guimaras to give an orientation on the requirements of the claim as well as the documents required to be submitted in support of the claim. The Company has filed a total of P220 million against the IOPC as of September 2008. Of this amount, a total of P129 million had been paid to the Company. Out of the total outstanding claims from IOPC of P91 million, the Company collected P14 million on July 27, 2009 as final settlement.

On June 17, 2009, a certain Emily Dalida, whose child Remelo M. Dalida died on August 16, 2006 at Brgy. Cabalagnan, Nueva Valencia, Guimaras, and Marcelino Gacho who was hospitalized for seventeen (17) days due to parapneumonic effusion, filed formal complaints for Homicide for the death of Remelo Dalida and for Less Serious Physical Injuries suffered by Gacho allegedly due to exposure to the oil spill along the shores of Cabalagnan against the respondents Sunshine Maritime Development Corp., Petron and Capt. Norberto Aguro, Master of M/T Solar I. Petron received a copy of the Subpoena on July 10, 2009. Petron, through its legal counsel, submitted its counter-affidavit on August 4, 2009. On the basis of the statement in Petron's counter-affidavit, Dalida and Gacho amended their complaint, changing the offense alleged to violations of Sec 28, par. 5 in relation to Sec 4 of the Phil. Clean Water Act of 2004, and dropping current Petron President Eric O. Recto, the Vice President and Board of Directors as respondents.

On August 4, 2009, the Provincial Prosecutor served a subpoena with a complaint-affidavit from Oliver Chavez, supposedly the Municipal Agriculturist of Nueva Valencia, who claims to be suffering from PTB due to his exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill. The respondents are being charged of Violation of the Philippine Clean Water Act of 2004 (RA 9275). On or about August 24, 2009, Chavez filed a Manifestation and Motion to Amend Complaint, changing the offense alleged to violations of Sec 28, par. 5 in relation to Sec 4 of the Phil. Clean Water Act of 2004, and dropping current Petron President Eric O. Recto as respondent.

The Provincial Prosecutor issued a Subpoena in both cases directing Petron to file their Counter-Affidavit and other controvertible evidence. Petron filed a Manifestation and Motion for Extension of Time to file additional Counter-Affidavits.

### **Bataan Real Property Tax Cases**

On August 21, 2007, Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring the Company to settle the amount of P2,168 million allegedly in delinquent real property taxes as of September 30, 2007.

The Company had previously contested the assessments subject of the Notice of Delinquent Real Property Taxes, appealed the same to the Local Board of Assessment Appeals (LBAA), and posted the necessary surety bonds to stop collection of the assessed amount. The Company contested the first assessment covering the Isomerization and Gas Oil Hydrotreater (GOHT3) Facilities of the Company which enjoy, among others, a 5-year real property tax exemption under the Oil Deregulation Law (RA 8479) per Board of Investments (BOI) Certificates of Registration. The second assessment is based on alleged non-declaration by the Company of machineries and equipment in its Bataan refinery for real property tax purposes and/or paid the proper taxes thereon since 1994. The Company questioned this second assessment on the ground among others that: there was no non-declaration; back taxes can be assessed only for a maximum of 10 years, even assuming fraud; erroneous valuations were used; some adjustments like asset retirement and non-use were not considered; some assets were taken up twice in the assessments; and some assets enjoyed real property tax exemptions.

Notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer proceeded with the publication of the Public Auction of the assets of The Company, which she set for October 17, 2007.

The Company exerted all efforts to explain to the Treasurer that the scheduled auction sale was illegal considering the Company's appeal to the LBAA and the posting of the surety bond. Considering the Treasurer's refusal to cancel the auction sale, the Company filed a complaint for injunction on October 8, 2007 before the Regional Trial Court to stop the auction sale. A writ of injunction stopping the holding of the public auction until the case is finally decided was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed before the LBAA by the respondents and the motion was granted by the LBAA on December 10, 2007.

On January 4, 2008, the respondents appealed the RTC's grant of a writ of injunction to the Supreme Court. On February 28, 2008, our counsel was served notice of the Resolution of the Supreme Court directing the Company to file its Comment on the petition of the Provincial Treasurer of Bataan questioning the RTC's issuance of a writ of injunction against the holding of a public auction for alleged delinquency in payment of real property taxes. The Company's comment was filed on March 7, 2008.

Last January 17, 2008, the Company appealed from the LBAA's dismissal of its appeal by filing a Notice of Appeal with the CBAA.

On June 27, 2008, the Supreme Court dismissed the petition filed by the Provincial Treasurer on the Order granting the writ of injunction. All five Justices concurred that the Treasurer's appeal was procedurally defective and/or was filed out of time. The Court also faulted the petitioner for disregarding the hierarchy of courts when it went straight to the Supreme Court without going thru the Court of Appeals. More importantly, the Court ruled that the issues raised by the Company against the assessment should be resolved before any auction sale is conducted; that the auction sale will have serious repercussions on the operations of the Company; and that a surety bond may be filed in lieu of payment of the taxes under protest to stop collection. Motions for reconsideration filed by Provincial Treasurer and the League of Provinces of the Philippines (LPP) were denied.

All pending incidents in the RTC case are now deemed submitted for resolution.

**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.

#### Material Commitments for Capital Expenditure

The Company funded a total of **₱ 3.08 billion**, **₱ 2.73 billion** for major projects and **₱ 0.35 billion** for miscellaneous projects in 2009. This is lower than initially planned as the Solid Fuel-Fired Power Plant project that will upgrade Refinery's power generation system was moved to 2010.

#### Major capital projects include:

**Service station projects.** ₱ 0.98 billion was allotted for the expansion of the service station network to augment market share and improvement of supply/distribution facilities.

**Refinery investments.** P 1.57 billion was used for the additional tankages and utilities-related projects such as repair, upgrading of steam and power-related facilities at the Refinery.

**Logistical projects.** P 0.19 billion was funded for logistical projects that would improve cost efficiencies and revenue generation. These include construction of additional jet facilities, tankages, and reconstruction of bunkering pier.

#### **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.

#### **Future Prospects**

The Company shall continue to pursue sustainable growth with value optimization as a framework for its plans and programs. Value optimization shall be achieved through unrelenting revenue generation programs and efficient cost management strategies.

**Strengthening the retail business** - The Company's retail business will be further strengthened through sales network expansion. 300 new stations are targeted for construction in 2010, most of which shall be micro-filling stations. Petron shall continue to construct big stations in urban areas and high growth areas. Non-fuel business like the Treats convenience stores, franchises, locators, etc., will be expanded to create more value from the stations. Operational efficiency in stations will also be enhanced through installations of more Point of Sale (POS) systems in retail stations.

**Building new and keeping strong partnerships with clients** - To maintain the leading position in the industrial segment of the market, the Company shall reinforce its business relationships with its industrial customers and develop more partnerships in high growth and high volume sectors like power, aviation, trade, metals, etc.

**Expanding the LPG market** - Gasul branch stores and exclusive retail outlets will also be expanded. More auto-LPG filling plants will be installed in stations to cater to the growing demand for auto-LPG. The Company also aims to add LPG filling plants to improve supply and distribution of LPG. This project will contribute to higher LPG volume, expand the Company's market in LPG, and at the same time, manage costs of distribution.

**Moving towards higher value products and markets** - The full impact of the BTX facility will be seen in 2010.

**Improving Refinery power generation system** - The Company shall upgrade the Refinery's power generation system by constructing a Solid Fuel-Fired Power Plant which shall provide less expensive power supply for the refinery and an opportunity to sell excess power to the national grid.

**Ensuring compliance to biofuels law** - To ensure compliance and support of government's biofuels law, the company shall expand the ethanol program by blending 10% ethanol in XCS as well in these locations: Pandacan, Mandaue, Rosario, Batangas, Limay, Poro and Davao.

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

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

## **Seasonal aspects that has material effect on the FS**

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

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

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

## **Audit and Audit-Related Fees**

For the annual review of the financial statements and other assurance related services, the Company paid its external auditors the amount of ₱4.4 million in 2008 and ₱3.6 million in 2009 (exclusive of VAT and out of pocket expenses). During the year, the external auditor did not provide consultancy services on tax or other services other than those mentioned above.

Petron's external auditor is selected through sealed bidding wherein qualified auditing firms are invited to participate. For the audit of annual financial statements, award is endorsed by the Board Audit Committee. The Board of Directors, finding the recommendation to be in order, in turn endorses the appointment or retention of the independent external auditor for approval/information of the stockholders during its annual meeting. Award of other related audit services is likewise done through sealed bids and is approved by the Audit Committee as endorsed by the company's Internal Audit Department.

## **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.

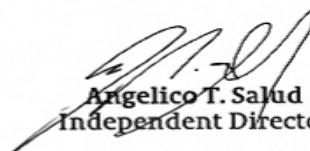
In the performance of our responsibilities, we report that in 2009:

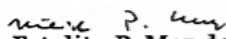
- We reviewed and discussed with Controllers management the annual financial statement of Petron Corporation and Subsidiaries and endorsed these for approval by the Board.
- On the basis of a favorable performance appraisal on their second year as external auditor of Petron, the Audit Committee endorsed and the stockholders approved the reappointment of Punongbayan & Araullo as the company's independent auditors for 2009. For greater transparency and in accordance with good corporate governance practice, the Board of Directors decided in 2007 to change the company's external auditors (SGV & Co.), whose services have been engaged by Petron for 13 consecutive years.
- The independent auditors, Punongbayan & Araullo, presented to and discussed with the Committee the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements.

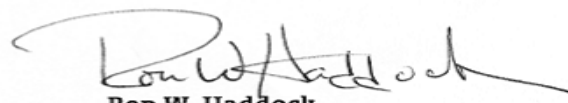
- The Audit Committee reviewed with Punongbayan & Araullo, the external auditors' audit observations and recommendations on the company's internal controls and management's response to the issues raised.
- The Committee reviewed with the Internal Audit Assistant Vice President and approved the annual internal audit plan and satisfied itself as to the independence of the internal audit function.
- 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 Committee reviewed and approved the update of the Internal Audit Charter which was fully aligned with ISPPA standards.

All the members of the Audit Committee, two of whom are independent directors, are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2009.

  
**Reynaldo G. David**  
 Chairperson  
 Independent Director

  
**Angelico T. Salud**  
 Independent Director

  
**Estelito P. Mendoza**  
 Director

  
**Ron W. Haddock**  
 Director

#### **Material Commitments for Capital Expenditure**

The Company funded a total of ₱ 3.08 billion, ₱ 2.73 billion for major projects and ₱ 0.35 billion for miscellaneous projects in 2009. This is lower than initially planned as the Solid Fuel-Fired Power Plant project that will upgrade Refinery's power generation system was moved to 2010.

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## 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.

## PART IV - MANAGEMENT AND CERTAIN SECURITY HOLDERS

### (A) Directors and Executive Officers of the Registrant

Described below are the business experiences of the company's Directors and Executive Officers for the past five (5) years.

#### Directors

**Ramon S. Ang**, Filipino, 56 years old, is the Chairman/Chief Executive Officer and Executive Director of Petron since January 8, 2009. He is the Chairman of the Board Executive Committee and Compensation Committee. He is also the Chairman of Petrogen Insurance Corporation, Las Lucas Construction and Development Corporation, Overseas Ventures Insurance Corporation, Ltd (OVINCOR), New Ventures Realty Corporation and Chairman/CEO of Petron Marketing Corporation and Petron Freeport Corporation. He is the Vice Chairman of San Miguel Corporation (SMC) since January 1999 and President & Chief Operating Officer since March 2002, Chairman of Liberty Telecom Holdings Inc. since December 2008 and Vice Chairman and Director of Manila Electric Company since December 2008. Other current positions include: Chairman and President of San Miguel Brewery Inc.; Chairman of San Miguel Properties, Inc., The Purefoods-Hormel Company, Inc., Anchor Insurance Brokerage Corporation and San Miguel Brewery Hongkong Ltd. (Hongkong), Philippine Diamond Hotel & Resort Inc., Philippine Oriental Realty Development Inc., Atea Terra Corporation and Cyber Bay Corporation; Director of Ginebra San Miguel Inc. and San Miguel Pure Foods Company Inc.; and an Independent Director of Philweb Corporation. Previously, Mr. Ang was the Chief Executive Officer of the Paper Industries Corporation of the Philippines (PICOP) 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. He has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.

**Eric O. Recto**, Filipino, 46 years old, is the President/Executive Director of the company since October 7, 2008. He became a director of Petron on July 31, 2008. He is a member of the Board Executive Committee and the Nomination and Compensation Committees. He is also the Chairman/CEO of Petron Foundation, Inc. and is a Director of Petrogen Insurance Corporation, Petron Marketing Corporation and Petron Freeport Corporation. He is currently, the Chief Executive Officer of Eastern Telecommunications Philippines, Inc. (ETPI) and Vice Chairman & President of ISM Communications Corporation, ETPI's parent company. He is also Vice Chairman of Philweb Corporation and Alphaland Corporation. He is also an Independent Director of the Philippine National Bank, PNOC Energy Development Corporation and Metro Pacific Investment Corporation. He was previously Undersecretary of the Department of Finance, in charge of both the International Finance Group and the Privatization Office from 2002-2005. Before his work with the government, he was Chief Finance Officer of Alaska Milk Corporation (2000-2002) and Belle Corporation (1994-2000). Mr. Recto has a degree in Industrial Engineering from the University of the Philippines and has a Masters degree in Business Administration from the Johnson School, Cornell University.

**Bernardino R. Abes**, Filipino, 79 years old, has been a non-executive Director of the company since July 2001. He is currently the Chairman of the Government Service Insurance System, following a three-year term as Chairman of the Social Security Commission. He is a formerly a Director of the Manila Electric Company, Philippine Stock Exchange, Union Bank of the Philippines, First Philippine Holdings, Philex Mining Corporation, Belle Corporation and Clark Development Corporation. He held the position of

Presidential Adviser on Legislative Affairs and Head, Presidential Legislative Liaison Office in 2001. Other positions include: Consultant for the Philippine Senate (1992 - 1993), Director for Bureau of Labor Relations (1957-1961), Secretary of Labor (1962-1964), Administrator and concurrently Chairman of SSS (1963-1965). He graduated from the University of Santo Tomas with a Bachelor of Laws degree.

**Eduardo M. Cojuangco, Jr.**, Filipino, 74, is a non- executive Director of Petron since January 8, 2009. He is the Chairman and Chief Executive Officer of San Miguel Corporation and Ginebra San Miguel Inc.; Chairman of ECJ & Sons Agricultural Enterprises Inc., Eduardo Cojuangco Jr. Foundation Inc., and San Miguel Purefoods Company Inc.; and a Director of Manila Electric Company and Cainaman Farms Inc. Previously held positions include: President & 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. Mr. Cojuangco was formerly a member of the House of Representatives (1970-1972), Governor of Tarlac (1967-1979) and Philippine Ambassador Plenipotentiary. 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.

**Ron W. Haddock**, 69 years old, American, is a non-executive Director since December 2, 2008. He is a member of the Audit Committee and an alternate member of the Executive Committee. He sits as the Chairman of the Board of Ashmore Energy International which he has occupied since September 2006. His other current positions include: Chairman of Safety-Kleen, Trinity Industries' Compensation Committee, Adea International Compensation Committee, Safety-Kleen Compliance/Governance Committees; and Member of the Boards of Ashmore Energy International; Alon Energy USA; Adea International, Inc.; Safety-Kleen; Trinity Industries and Rubicon Offshore International. Previously, he was Chairman and CEO of Prisma Energy International and FINA. He started his career with Exxon in 1963 and held various management positions thereafter which include: 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. Mr. Haddock is an active member of several industry and civic organizations in the U.S. and was a former Honorary Consul of Belgium in Dallas, Texas. He holds a degree in Mechanical Engineering from the Purdue University.

**Estelito P. Mendoza**, Filipino, 80 years old, is a non- executive Director since January 8, 2009. He is a member of the Nomination, Compensation and Audit Committees. He is currently the Chairman of Prestige Travel Inc. He holds directorships in San Miguel Corporation, a position which he also held in 1991-1993 and 1998; the Manila Electric Company; Philippine Airlines Inc.; and is head of E. P. Mendoza Law Office. He was previously the Chairman of Dutch Boy Philippines, Inc. and Alcorn Petroleum and Minerals Corporation and a Director of East West Bank. Earlier, he served the Philippine Government as a former Solicitor General (1972-1986), Minister of Justice (1984-1986), Member of the Batasang Pambansa (1984-1986) and Governor of the Province of Pampanga (1980-1986). His professional affiliations include membership with the Integrated Bar of the Philippines, the Philippine Bar Association, International Academy of Trial Lawyers (USA), and the American Society of International Law. Mr. Mendoza took his pre-law course and Bachelor of Laws degree at the University of the Philippines and graduated cum laude. He also holds a Master of Laws degree from Harvard Law School.

**Roberto V. Ongpin**, Filipino, 73 yrs. old, is a non-executive Director of the company since July 31, 2008. He is a member of the Board Executive and Compensation Committees. He is currently the Chairman of the following corporations: Philweb Corporation since January 2000, ISM Communications Corporation since 2001, Eastern Telecommunications Philippines, Inc. since March 2006, Developing Countries Investment Corporation since January 1987, La Flor de la Isabela, Inc. since April 1996 and Alphaland Corporation since May 2007. He is also the Deputy Chairman of South China Morning Post, Hong Kong since October 1993. He is a Director of Philex Mining Corporation since June 2007, Araneta Properties, Inc. since May 1998, and Shangri-la Asia, Hong Kong since March 1993. Mr. Ongpin joined SGV & Co. in 1964 and was Chairman and Managing Partner of the firm from 1970 to 1979. He served as Minister of Trade and Industry of the Republic of the Philippines from 1979 to 1986. Mr. Ongpin

holds a Bachelor of Science in Business Administration, major in Accountancy, *cum laude*, from the Ateneo de Manila University. He is a Certified Public Accountant (CPA) and has an MBA from Harvard Business School.

**Seumas James S. Dawes**, Australian, 51 years old, Senior Fund Manager and member of the Investment Committee, joined Ashmore in 2000 from Paribas Limited, where he was responsible for local markets derivatives trading. He is a returning Director of Petron, having been previously elected in July 2008. Prior to Paribas he worked for two years as Head of Local Markets Proprietary Trading at ANZ Investment Bank and before that, was a Director at Merrill Lynch, in the International Credit Trading group. He has extensive trading experience in Emerging Markets, credit products, and foreign exchange, interest rate and equity derivatives. Before commencing his career in the financial markets in 1989, he held a number of positions in the Australian public sector, including three years as a senior adviser to the then Treasurer of Australia (later, Prime Minister) Paul Keating.

Presently, Mr. Dawes sits as a Director in the Board of the following companies: Offshore Strategic Assets Private Limited (since Feb. 27, 2007), Rubicon Holdings Private Limited and Rubicon Maritime Private Limited (since May 2, 2007), Rubicon Vantage Offshore Private Limited (since May 4, 2007), Rubicon MSV Holdings Limited and Rubicon Offshore Holdings Ltd (since June 16, 2007), Rubicon Offshore International Holdings Limited (since June 19, 2007), Rubicon Venture Limited (since July 23, 2007), ECI Holdings (Hungary) KFT (since Sept. 1, 2007), Telecom Investments (Finance) LLC (since Sept. 4, 2007), Telecom Investment (Finance) Ltd. (since Sept. 18, 2007), Rubicon Offshore International Private Limited (since Sept. 5, 2006), Morton Bay (Holdings) Pte Limited, Singapore (since Oct. 8, 2005), Jasper Investments Limited, Pacnet Holdings Limited, Star Energy Holdings (Sebatik) Pte Ltd., Star Energy Holdings Pte Ltd., and Neptune Marine Oil & Gas (now delisted from OTC), Neptune Marine Investment and Rubicon SP Holdings Limited.

**Angelico T. Salud**, Filipino, 47 years old, Independent Director since January 8, 2009. He is the Chairman of the Nomination Committee, a member of the Audit and Compensation Committees, and alternate member of the Executive Committee. He is currently a Legal Consultant at the Office of the Mayor of Makati City. He was formerly the President of the National Resources Development Corporation from October 2004 to March 2006; National Home Mortgage Finance Corporation from September 2000 to September 2004; and Home Development Mutual Fund from August to September 2000. A law practitioner, Mr. Salud has had extensive work experience in both government and private sectors. He is a graduate of a Bachelor of Science degree in Legal Management at the Ateneo de Manila University and a Bachelor of Laws degree from the University of the Philippines.

**Reynaldo G. David**, Filipino, 67 years old, is the President & Chief Executive Officer of the Development Bank of the Philippines, a position which he has occupied since October 2004. He is also the Chairman of the following institutions: DBP-Daiwa Securities SMBC Philippines Inc., and NDC Maritime Leasing Corporation; and as Director of DBP Data Center, Inc., Megalink Inc. and Al-Amanah Islamic Bank of the Philippines. Previously, he was the Chairman of LGU Guarantee Corporation; Vice Chairman/CEO and Executive Committee Chairman of Export and Industry Bank (September 1997-September 2004); Director/CEO of Unicorp Finance Limited and Consultant of PT United City Bank (concurrently held from 1993-1997; Vice President and FX Manager of the Bank of Hawaii (April 1984-August 1986); and held various directorships and/or executive positions with The Pratt Group (September 1986-December 1992), a major industrial Australian firm based in Hong Kong. Other positions held include: President & Chief Operating Officer of Producers Bank of the Philippines (October 1982-November 1983); President & 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 has likewise been awarded by the Association of Development Financing Institutions in Asia & the Pacific (ADFIAP) 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 recently conferred with the title Doctor of Laws, *honoris causa*, by the Palawan State University in 2005.

## Other Executive Officers

**Emmanuel E. Eraña**, Filipino, 49 years old, is the Senior Vice President and Chief Finance Officer of Petron Corporation and heads the Finance and Corporate Planning Divisions of the company. He is the President/CEO of Petrogen Insurance Corporation, Las Lucas Construction & Development Corporation, and New Ventures Realty Corporation; Deputy Chairman of Overseas Ventures Insurance Corporation, Ltd.; director of Petron Freeport Corporation; and Trustee of Petron Foundation, Inc. Prior to his current position, he was the Chief Information Officer of the Corporate Service Unit of San Miguel Corporation. He began his career with San Miguel as Finance Manager in 1998, then went on to hold other positions in the field of finance, namely: Finance Manager, San Miguel Foods, Inc. (Oct. 1999-Dec. 1999); Finance & Management Services Officer, San Miguel Food Group (2000-2001); Finance Officer, San Miguel Purefoods Corporation (Jan. 2001-Jun. 2002); Chief Finance Officer, San Miguel Purefoods Corporation (Jul. 2002-May 2005); Chief Finance Officer, SMFBIL/NFL Australia (May 2005-Nov. 2006); Executive Assistant to the Chief Financial Officer, Corporate Service Unit (Dec. 2006-Jan. 2008). Mr. Eraña has a Bachelor of Science degree in Accounting from the Colegio de San Juan de Letran.

**Lubin B. Nepomuceno**, Filipino, 58 years old, is the Senior Vice President and General Manager of Petron Corporation and heads the Marketing, Supply and Refinery Divisions of the company. He is the President of Petron Marketing Corporation and a director of Las Lucas Development Corporation, New Ventures Realty Corporation and Petron Freeport Corporation. His other current positions include: directorships in the Corporate Technology Group, San Miguel Food & Beverage International Ltd., and Thai San Miguel Liquor Co. Ltd; President of Archen Technologies, Inc.; Senior Vice President & Manager of Corporate Technical Services; and Board Member of San Miguel Yamamura Packaging Corporation. Previously, he was the Chairman of San Miguel Corporation Shipping & Lighterage. He has held various board and executive positions in San Miguel group. Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and an MBA from the Dela Salle University. He also attended trainings at the University of Hawaii, University of Pennsylvania and Japan's Sakura Bank Business Management.

**Ma. Concepcion F. de Claro**, Filipino, 52 years old, is the Vice President for Corporate Planning and Services Division since November 7, 2008. She is currently a director of Las Lucas Construction & Development Corporation and New Ventures Realty Corporation as well as a Trustee of Petron Foundation Inc. She held the position of Accounting Manager and became the Controller of the company as well as its subsidiaries, namely, Petrogen Insurance Corporation, New Ventures Realty Corporation, Petron Foundation, Inc., Petron Marketing Corporation, Petron Freeport Corporation, Las Lucas Construction and Development Corporation and New Ventures Realty Corporation. She has been with the company for 27 years. She started as a Financial Analyst and held several supervisory positions at the PNO Energy Development Corporation (PNO EDC), a former affiliate of Petron. After 11 years in PNO EDC's Finance Division, Ms. De Claro transferred to PNO's Budget and Control Department, where she was a Supervisor for three years before she was assigned to Petron's Corporate Planning Department when the company was privatized in 1994. She was the Planning Officer for the Department for seven years, after which she became the Manager for Strategic Planning. She graduated *Magna Cum Laude* with a degree in Bachelor of Science in Commerce, major in Accounting from the Colegio de San Juan de Letran.

**Jose Jesus G. Laurel**, Filipino, 55 years old, has been the company's General Counsel since May 12, 2005 and currently holds the position of Vice President- General Counsel. He is also the company's Corporate Secretary and Compliance Officer as well as of Petrogen Insurance Corporation, Petron Marketing Corporation and Petron Freeport Corporation; the General Counsel and Corporate Secretary of New Ventures Realty Corporation and Las Lucas Development Corporation; and the President and a

Trustee of Petron Foundation, Inc. Prior to joining Petron, he worked with PNOG Energy Development Corporation as General Counsel & Corporate Secretary from 1992 to 2001 and as Vice President for Corporate Services (Law/HR/Finance/Planning/Purchasing) from 2001 to 2005 and was later promoted to Vice President/Chief Operating Officer. He was also General Counsel and Corporate Secretary of the PNOG Coal Corporation and PNOG Exploration Corporation in 1992 until 1999. Atty. Laurel was with the Securities & Exchange Commission (SEC) from 1982 to 1992 as Hearing Officer and was later appointed as Deputy Executive Director. He holds an A.B. Economics degree from the Ateneo de Manila University and an LL.B degree also from the same university (2<sup>nd</sup> Honors/Silver Medal). He is a 6<sup>th</sup>-place Bar examinations topnotcher and holds a Master of Laws degree from Yale Law School, Yale University, New Haven, Connecticut, USA.

**Ma. Cristina M. Menorca**, 55 years old, Filipino, is the Vice President for Controllers. She has been with Petron for 31 years. She is also the Controller of New Ventures Realty Corporation, Las Lucas Construction & Development Corporation, Petrogen Insurance Corporation, Petron Marketing Corporation and Petron Freeport Corporation; and a Trustee and Controller of Petron Foundation Inc. She started her career with Petron in 1978 as Financial Analyst and then held various supervisory positions before moving on to managerial posts which include: HR Manager - PNOG Marine Group of Companies (1990-1993); Purchasing Manager (1993-1995); SAP Project Manager (1995-1996); Business Systems Support Manager (1996-2001); HR Manager (2001-2008) and Financial Planning and Risk Management Manager and Special Assistant to the President and the Chairman (Oct. 2008-Nov. 2008); and Controller (November 2008). Prior to joining Petron, she was a Staff Auditor at SGV in 1976 and the Chief Accountant of San Beda College in 1977. She is a 2008 awardee of the PMAP People Manager of the Year. Ms. Menorca holds a Bachelor of Science degree in Commerce, major in Accounting, *magna cum laude*, from the University of Sto. Tomas and placed 18<sup>th</sup> in the 1976 CPA Board examinations.

**Susan Y. Yu**, Filipino, 33 years old, is the Company's Vice President for Procurement. She is a Trustee of Petron Foundation Inc. and was formerly the Treasurer of Petrogen Insurance Corporation and Director of Overseas Ventures Insurance Corporation, Ltd. (OVINCOR). Prior to joining Petron, she was the Assistant Vice President & Senior Corporate Procurement Manager of San Miguel Brewery, Inc. From July 2003 to February 2008, she was the Assistant Vice President & Senior Corporate Procurement Manager of San Miguel Corporation Corporate Procurement Unit. Ms. Yu also worked with Philippine Airlines from May 1997-June 2003 as Fuel Purchasing & Price Risk Management Manager. She has a Commerce degree in Business Management from De La Salle University and an MBA from the Ateneo de Manila University, for which she was awarded a Gold Medal for Academic Excellence. She is presently pursuing her doctorate degree in Business Administration at De La Salle University.

**Ramon V. del Rosario**, Filipino, 59 years old, is the Vice President for Retail Marketing. Prior to his current appointment, he was the General Manager for Reseller Trade from November 2005 to June 2009. In his 30 years of service with the Company, he has been assigned to various positions in the Marketing, Operations and Corporate Planning Divisions, based in Manila and Vismin. He started his stint in Petron in 1979 as a Field Engineer at PNOG-EDC's Geothermal Division. A Mechanical Engineering graduate of De La Salle College, Mr. del Rosario holds a Masters degree in Mechanical Engineering from the University of the Philippines and an MBA from the Ateneo de Manila University. He completed courses on Petroleum Policy and Management at the Norwegian Petroleum Directorate in 1991 and Supply Chain Management at INSEAD in Fontainebleau, France in 2000.

**Miguel V. Angeles**, Filipino, 49 years old, is the Vice President for Commercial Marketing. He was previously the General Manager for Industrial Trade from August 2006 to June 2009 before becoming the Head for Commercial Marketing in June this year. He started his career with Petron as an Analyst in the Project Development Department of the Corporate Planning Division in March 1981, then went on to assume various posts in Corporate Planning, Supply and Marketing. He has been with the Company for a period of 28 years. Mr. Angeles has a Bachelors degree in Mathematics and an MBA from the University of the Philippines.

**Peter Paul V. Shotwell**, Filipino, 56 years old, is the Vice President for Depot & Plant Operations. He was formerly the Manager for Supply & Operations Planning Department from May 2005-June 2009 before becoming Head last June 2009. He has been with the Company for 29 years and has held various positions mostly in the Operations Division since 1980. He holds a Bachelor of Science degree in Mechanical Engineering Batch 1976 from the De La Salle University.

**Ma. Rowena O. Cortez**, Filipino, 44 years old, is the Vice President for Supply. She was the Head for Supply prior to her current designation. She joined Petron's Marketing Division in 1993 as a Market Planning Analyst then moved on to several supervisory and managerial positions in Marketing and Supply Divisions. She was also the Project Manager for the Demand Planner implementation of Petron, and subsequently delivered a paper on this experience at the i2 Planet in Phoenix, Arizona (USA) in May 2005. Prior to her transfer to Petron, she started her career with the PNOC-Energy Research and Development Center where she handled computer training, information system-related activities and various research work on new and renewable sources of energy. She is a member of the UP Industrial Engineering Alumni Association. Ms. Cortez holds a Bachelor of Science in Industrial Engineering (1986) and an MBA (1994) from the University of the Philippines. She has attended the prestigious Energy Course at the University of Oxford in Oxfordshire, UK in 2008.

**Freddie P. Yumang**, Filipino, 51 years old, is the Vice President for Refinery. He brings in an extensive 27 years of work experience in refinery operations. He joined Petron as a Project Engineer Trainee in January 1982 then went on to assume various supervisory and managerial positions at the Refinery. He has been sent overseas on numerous occasions to lead technical teams for Foster Wheeler International (1998-1999) and Petronas Refinery in Malaysia (1987-1989) and has served as resource person and speaker at conferences in several Asian countries. Mr. Yumang is a registered and professional mechanical engineer (RME/PME) and is an active member of the Philippine Society for Mechanical Engineers (PSME) of which he served as National Director in 2006 and 2007. Among his most notable achievements was receiving a Plaque of Recognition from the ME Alumni Association of MIT in 2007; a citation as one of the Outstanding Mechanical Engineers (TOME) by the PSME in 2005; and an award as Outstanding President of PSME Bataan Chapter in 1995. He is a Mechanical Engineering graduate of the Mapua Institute of Technology (1981) and has MBA units from De La Salle University (1987). He also attended the Basic Management and Management Development Programs of the Asian Institute of Management in 1992 and 2002, respectively, from which he received separate awards for Superior Performance.

**Albertito S. Sarte**, 42 years old, Filipino, is the Vice President for Treasurers. He has had twenty years of experience in the field of corporate finance. He joined San Miguel Corporation (SMC) in 1988 as Budget Analyst for Corporate Budget, then worked his way up to becoming a Senior Financial Analyst for Funds Planning Department (1995 to November 1999) and Assistant Vice President for International Treasury of SMC (December 1999-June 2009). He is a graduate of a Bachelor of Science degree in Business Management from the Ateneo de Manila University in 1987 and attended the Management Development Program of the Asian Institute of Management in 1995.

### **(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, President and Executive Director of the Company is the nephew of Mr. Roberto V. Ongpin who is also a Director.

## **(5) Involvement in Certain Legal Proceedings**

The Company is not aware that anyone of the incumbent directors and executive officers and persons nominated to become a director and executive officer have been the subject of bankruptcy petitions or pending criminal proceedings in court or have 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.

## **(B) Executive Compensation**

### **(1) 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 twelve (12) months base pay. They also receive whatever gratuity pay the Board 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.

#### **Employment Contract**

In lieu of an employment contract, the Directors are elected at the annual meeting of stockholders for a one (1) year term. Any director elected in the interim will serve for the remaining term until the next annual meeting.

## **Summary Compensation Table**

The aggregate compensation paid or incurred during the last two fiscal years and the estimate for the ensuing year are as follows:

Concepcion F. de Claro  
 Ma. Cristina M. Menorca  
 Albertito S. Sarte  
 Susan Y. Yu

*Vice President - Corporate Planning*  
*Vice President - Controller*  
*Vice President - Treasurer*  
*Vice President - Procurement*

Bernardino R. Abes	<i>Director</i>
Eduardo M. Cojuangco, Jr.	<i>Director</i>
Reynaldo G. David	<i>Director</i>
Estelito P. Mendoza	<i>Director</i>
Roberto V. Ongpin	<i>Director</i>
Angelico T. Salud	<i>Director</i>
Ronald Haddock	<i>Director</i>
Mirzan Bin Mahathir	<i>Director</i>

**2009 (In PhP Million)**

<i>Total Comp - Top 5 Execs</i>	<i>58.26</i>
<i>Total Comp - Executives</i>	<i>97.03</i>
<i>Total Comp - Execs / Directors</i>	<i>106.71</i>
<i>Aggregate 08-09 (Top 5 Execs)</i>	<i>118.73</i>
<i>Aggregate 08-09 (Execs/Dirs)</i>	<i>210.40</i>

**(C) Security Ownership of Certain Beneficial Owners and Management as of December 31, 2009**

Security ownership of certain record and beneficial owners of more than 5% of common shares as of December 31, 2009 are:

Title of Class	Name & address of record owner & relationship with issuer	Name of beneficial owner & relationship with record owner	Citizenship	No. of shares held	Percent
Common Shares	SEA Refinery Corporation 19F Liberty Center, dela Costa St., Salcedo Village, Makati City Major Stockholder	SEA Refinery Corporation*	Filipino	4,696,885,564R	50.10%
Common Shares	SEA Refinery Holdings B.V. Prins Bernhardplein 200 1097JB Amsterdam, The Netherlands Major Stockholder	SEA Refinery Holdings B.V.*	Netherlands	3,794,093,495R	40.47%

\*SEA Refinery Corporation and SEA Refinery Holdings B.V. are the record owners. The shares were voted by their proxy, Mr. Seumas James S. Dawes at the May 12, 2009 stockholders meeting.

Security ownership of directors and executive officers as of December 31, 2009 are:

Title of Class	Name of Beneficial Owner	Citizenship	Amount and Nature of Beneficial Ownership	Percent of Ownership
<b>Directors</b>				
Common Stock	Ramon S. Ang	Filipino	1,000	0.0000%
Common Stock	Eduardo M. Cojuangco, Jr.	Filipino	1,000	0.0000%
Common Stock	Estelito P. Mendoza	Filipino	1,000	0.0000%
Common Stock	Bernardino R. Abes	Filipino	1	0.0000%
Common Stock	Angelico T. Salud	Filipino	1,000	0.0000%
Common Stock	Robert V. Ongpin	Filipino	1	0.0000%
Common Stock	Eric O. Recto	Filipino	1	0.0000%
Common Stock	Ron W. Haddock	American	1	0.0000%
Common Stock	Seumas James S. Dawes	Australian	1	0.0000%
Common Stock	Reynaldo G. David	Filipino	1,000	0.0000%
<b>Executive Officers</b>				
Common Stock	Lubin B. Nepomuceno	Filipino	5,000	0.0001%
-	Emmanuel E. Eraña	Filipino	0	-
Common Stock	Jose Jesus G. Laurel	Filipino	10,000	0.0001%
Common Stock	Miguel V. Angeles	Filipino	52,169	0.0006%
Common Stock	Concepcion F. de Claro	Filipino	22,513	0.0002%
Common Stock	Rowena O. Cortez	Filipino	8,580	0.0001%
-	Ramon V. del Rosario	Filipino	0	-
Common Stock	Cristina M. Menorca	Filipino	200	0.0000%
-	Peter Paul V. Shotwell	Filipino	0	-
Common Stock	Susan Y. Yu	Filipino	3,000	0.0000%
Common Stock	Freddie P. Yumang	Filipino	118,402	0.0013%
-	Albertito A. Sarte	Filipino	0	-
<b>Directors &amp; Executive Officers as a Group</b>			<b>224,869</b>	<b>0.0035%</b>

As of December 31, 2009, the total number of shares owned by the Directors and officers is 224,869.

## (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 voting trust agreement.

## (3) Changes in Control

Prior to the entry of Ashmore, the Philippine National Oil Company (PNOC) and the Aramco Overseas Company B.V. (AOC) each owned a 40% share of equity. The remaining 20% was held by the general public.

On March 13, 2008, Aramco Overseas Company B.V., (AOC) 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 waived its right of first offer to purchase AOC's interest in Petron. Eventually, SEA Refinery Holdings B.V., a company incorporated in Netherlands and owned by funds managed by Ashmore Group acquired Saudi Aramco's 40% interest in Petron in July 2008. Under the SEC Rule, Ashmore was required to make a tender offer having acquired more than 35% of the shares of the company. A total of 990,979,040 common shares were tendered representing 10.57% of the total outstanding common shares of Petron. Together with the private sale of AOC's 40% interest in Petron, the Ashmore group, thru its corporate nominee SEA Refinery Holdings B.V., acquired 50.57% of the outstanding common shares in Petron.

In a later development, on October 6, 2008, PNOC informed Petron of its intent to dispose its 40% stake in the company. In December 2008, the 40% interest of PNOC in Petron was purchased by SEA Refinery Corporation, a domestic corporation wholly-owned by SEA Refinery Holdings B.V. In a related development, SEA Refinery Holdings B.V. sold a portion of its interest in Petron equivalent to 10.1% of the issued shares, to SEA Refinery Corporation. Thus, at the turn of the year, the capital structure of Petron was as follows: SEA Refinery Corporation - 50.10%; SEA Refinery Holdings B.V. - 40.47%; and the general public - 9.43% .

On December 24, 2008, San Miguel Corporation (SMC) and SEA BV entered into an Option Agreement granting SMC the option to buy the entire ownership interest of SEA BV in its local subsidiary SRC. The option may be exercised by SMC within a period of two years from December 24, 2008 or until December 24, 2010. Under the Option Agreement, it was provided that SMC will have representation in the Petron Board and Management. In the implementation of the option agreement between SMC and SEA BV, SMC representatives were elected to the Board and appointed as senior officers last January 8 and February 27, 2009.

In the February 27 Board meeting, the Board approved the amendment of the Articles of Incorporation to include the generation and sale of electric power in its primary purpose. The objective is principally to lower the refinery power cost thru self-generation and, in the event there is excess power, to sell the same to third parties. The Board also approved an increase of the capital stock from the current P10 billion to P25 billion through the issuance of preferred shares, raising funds for capital expenditures related to expansion programs, and possibly, to reduce some of the company's debts. Both items will be submitted for stockholders' approval on May 12, 2009.

On October 21, 2009, the Board approved the amendment of Petron's Articles of Incorporation to reclassify a total of 624,895,503 unissued common shares to preferred shares with par value of P1.00 per share, which also includes a waiver of the stockholders' pre-emptive rights on the issuance of preferred shares. Features of said shares were approved by the Executive Committee on November 25, 2009.

In December 2009, the Company submitted the requirements for the registration of preferred shares with the SEC and PSE. Written assent forms were distributed to stockholders to vote for or against the amendment of the reclassification of unissued common shares to preferred shares. A majority of the stockholders voted in favor of the reclassification.

#### **(D) Certain Relationships and Related Transactions**

Petron Corporation has no transactions or proposed transactions with any of its directors or officers.

The major stockholders of the company are:

(a)	SEA Refinery Corporation	-	50.10%
(b)	SEA Refinery Holdings B.V.	-	40.47%

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

Petron has been leasing from its previous major shareholder, PNOC certain parcels of land where its refinery and most of its bulk plants, terminals, and service stations are located. Petron has also been leasing from its affiliate, New Ventures Realty Corporation some parcels of land where some of its depots, terminals and many service stations are located. Under the Retail Trade Liberalization Law, Petron is allowed to engage in direct retail of its fuel products thru its subsidiaries, namely, PMC and PFC. PMC is also leasing service station sites from NVRC.

Also, Petron has been purchasing most of its crude requirements from Saudi Aramco, a previous major stockholder. The supply agreement with Saudi Aramco has been revised and will be renewed annually.

## **(E) Corporate Governance**

Petron's Board of Directors is composed of ten (10) members, two (2) of whom are Independent Directors. Currently, only two (2) of the members are Executive Directors, occupying the positions of the Chairman and the President of the company. The Board is responsible for overseeing management of the company. The members of the Board are carefully selected to ensure Petron's continued competitiveness in a manner consistent with its fiduciary responsibilities. The Board is further composed of the following committees, namely: the Nomination Committee, which handles the selection and pre-screening of nominations for directors; the Compensation Committee, which reviews and modifies, among others, the salary structures of officers holding position of Vice President or higher; the Audit Committee, which is in charge of reviewing the company's internal reports, rules and regulations that may impact on Petron's financial statements; and the Executive Committee, which allows its members to act on matters that otherwise require the immediate action of the Board.

In compliance with SEC Memo Circular No. 2, Series of 2002, Petron established its Corporate Governance Manual which took effect on January 1, 2003. The Manual recognizes and upholds the rights of every stockholder and reflects the key internal control features necessary for good corporate governance, such as the duties and responsibilities of the Board of Directors and Committees; active participation of Management in the operation of the company; organizational and procedural controls that are supported by an effective management information and risk management reporting systems; and independent audit measures to monitor the Corporation's governance, operations and information systems.

### **A. Stockholders' Rights**

The company recognizes the rights of stockholders to elect and replace directors. A director cannot be removed without cause and only with the affirmative vote of 70% of the total issued and outstanding stock. Minority shareholders are not deprived of representation in the Board and may propose agenda items for legitimate purposes and/or call a special meeting at written request of one or more stockholders holding at least 20% of the total issued and outstanding shares of the Corporation. Stockholders are likewise entitled to pre-emptive, appraisal and dividend rights as well as the right to inspection and information. The company sees to it that shareholder concerns, queries or requests are immediately attended to and that written communications, including notices of stockholders meetings, are promptly sent. Queries/requests may be coursed thru the company's website.

### **B. Board of Directors**

Upon election, Petron Directors, including the Officers and employees, are made to sign Conflict-of-Interest & Undertaking Statements, disclosing their respective business interests, to ensure that these are not in competition with the business of Petron. To further strengthen their understanding and appreciation, they are also given the company's Code of Conduct & Ethical Business Policy at the start of their occupancy. Per By-Laws, the Corporate Secretary informs the Directors and Officers of the schedule of board meetings beforehand and board materials are released and distributed within a reasonable time before every meeting. All Directors, officers and senior managers are required to attend basic corporate governance seminar at SEC-accredited providers immediately upon assuming office.

### C. Disclosure & Transparency

To instill a stable and transparent process of conducting its business and at the same time identify accountability at all times, a system of approvals is in place whereby only authorized officer(s) may approve a particular business transaction and only up to the authorized amount. Transactions with amounts exceeding the joint approval limit of the Chairman and the President are elevated to the Board for approval. Aside from the Corporate Governance Manual, several other manuals have been instituted by Management to establish company policies and guide the employees in carrying out their respective functions and duties, to address business operations and set contracting and bidding procedures, and to instill business ethics, office decorum and employee discipline.

Management continuously conducts periodic assessment and performance reviews through quarterly management and safety reviews. Thus, business performance (actuals vis-à-vis targets), compliance with business hurdle rates and financial parameters/ratios, as well as health, safety and environmental requirements are evaluated periodically.

Reports required to be given to the stockholders pursuant to its By-Laws and the Securities and Regulation Code and submissions to the SEC/PSE, including quarterly financial reports, annual report and disclosures, General Information Sheet (GIS), requests for explanation or information on news items are complied with. These disclosures may be accessed by the public at the company's website. Pursuant to the requirements of the Securities and Exchange Commission, the Corporate Secretary and Compliance Officer submitted in November 2009 the Corporate Governance (CG) Scorecard Survey for publicly-listed companies, a project of the Institute of Corporate Directors (ICD) in collaboration with PSE, SEC and the Ateneo School of Law; in December 2009, the record of attendance of Directors at Board/Stockholders Meetings for 2009; and in January 2010, the required yearly certification to the SEC/PSE on the compliance by the company with its Corporate Governance Manual.

For 2007, Petron was adjudged as among the top 20 publicly-listed companies in good corporate governance out of the 138 publicly-listed companies. The corporate governance rating was undertaken by the ICD in collaboration with the Securities and Exchange Commission, Philippine Stock Exchange and the Ateneo Law School. In January 2009, the company was cited by the Management Association of the Philippines as one of the top 20 companies with the best annual report.

With the election of Mr. Angelico T. Salud and Reynaldo G. David as Independent Directors to the Petron Board; the election of members and alternate members, in proper cases, of the Audit, Compensation, Nomination and Executive Committees; the conduct of regular quarterly board meetings, special board meetings and board committee meetings and the faithful attendance of and proper discharge of duties and responsibilities of Directors at such meetings; the conduct of training/seminar for Corporate Governance for incoming Directors and Officers; and strict adherence to national and local laws pertaining to its business operations, including applicable accounting standards and disclosure requirements, the company is in compliance with its Corporate Governance Manual.

To further instill corporate governance in the company, it will continue to coordinate with accredited providers for the attendance of Directors/Officers in more extensive corporate governance programs to keep them abreast with the latest developments and best practices.

**List of Directors**  
(As of December 31, 2009)

#	Directors	Executive / Non-Executive/ Ind. Director	Attended Corporate Governance Seminar	Board Meeting Dates									Committee Membership			
				Jan 8	Feb 27	May 12 SB	May 12 ASM	May 12 OM	Aug 12	Oct 21	Dec 4	Nom	Aud	Com	Exe com	
1	Ramon S. Ang <sup>1</sup>	Executive	✓	-	✓	✓	✓	✓	✓	✓	✓			✓	✓	
2	Eric O. Recto	Executive	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	
3	Eduardo M. Cojuangco Jr.	Non-Executive	✓	-	✓	✓	✓	✓	-	-	-					
4	Estelito P. Mendoza	Non-Executive	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
5	Roberto V. Ongpin	Non-Executive	✓	✓	✓	✓	✓	✓	✓	✓	✓			✓	✓	
6	Bernardino R. Abes	Non-Executive	✓	✓	✓	✓	✓	✓	✓	✓	✓					
7	Ron W. Haddock <sup>2</sup>	Non-Executive		-	✓	-	-	-	-	-	✓		✓		✓	
8	Seumas James S. Dawes	Non-Executive	✓	-	-	-	-	✓	✓	✓	-					
9	Angelico T. Salud <sup>3</sup>	Independent Director		-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
10	Reynaldo G. David	Independent Director		-	-	-	-	✓	✓	✓	✓		✓			

<sup>1</sup> Elected by the Board, together with Messrs. Cojuangco, Mendoza and Salud, on Jan. 8, 2009.

<sup>2</sup> Mr. Haddock is an Alternate Member of the BEC.

<sup>3</sup> Mr. Salud is an Alternate Member of the BEC.

## PART V - EXHIBITS AND SCHEDULES

### Item 14. Exhibits and Reports on SEC Form 17-C

#### Exhibits

- Exhibit 1 - Audited Financial Statements
- Exhibit 2 - Index to Financial Statements & Supplementary Schedules

#### Reports on SEC Form 17-C

1. Election of new Directors, effective January 08, 2009
2. Election of new Officers
3. Appointment of Members to the Compensation, Audit, Nomination & Executive Committees
4. Appointment of Atty. Jose Jesus G. Laurel as Corporate Secretary and Compliance Officer, vice Atty. Luis A. Maglaya who has been appointed as Legal Counsel
5. Granting to Management the authority to raise long-term funds
6. Amendments to the Articles of Incorporation which include increase in capital stock from P10 billion to P25 billion thru issuance of preferred shares & change in Primary Purpose to include generation and sale of electric power
7. Approval of endorsement for stockholders' approval of waiver of pre-emptive rights over new shares
8. 2008 Financial Statements posting a net loss of P3.9 billion
9. Fixing the date for Annual Stockholders' Meeting on May 12, 2009, the Agenda and the Record date on March 16, 2009
10. Revision of current level of appropriated retained earnings of P23.8 billion and the setting up of a new level in the amount of P15.4 billion for the fiscal year
11. Contract Award for Refinery's Fire-Affected Facilities Restoration Works
12. Creation of the Office of the Vice President for Procurement and appointment of Ms. Susan Y. Yu as Vice President for Procurement, effective Feb. 27, 2009
13. Early retirement of Mr. Antonio G. Pelayo as Vice President for Finance and Subsidiaries
14. Information update on the Supreme Court's resolution in the case of SJS v Atienza
15. 1<sup>st</sup> Quarter 2009 Financial Performance Report posting a net income of P874 million
16. Election of Directors for 2009-2010.
17. Appointment of Punongbayan & Araullo as External Auditor for 2009.
18. Approval of the basic features of preferred shares in relation to the increase of the Company's capital stock from the current P10 billion to P25 billion
19. Endorsement to the stockholders of the appointment of Punongbayan & Araullo as External Auditor
20. Election of Members to Audit, Compensation, Nomination and Executive Committees
21. Election of Executive Officers and General Counsel for 2009-2010
22. 2009 Service Station Projects
23. Inter-Company Advances to NVRC for Service Station Lot Funds Pool
24. Lease of Service Station Sites
25. Prior Approval Expenditure Request (PAER) for the Basic Engineering, Design of Refinery Solid-Fuel Fired CFB Power Plant (RSFFPP).
26. Installation of Spare Nitrogen Compressor and Storage Facility
27. Installation of Fixed Foam Generator
28. Amendment of the Articles of Incorporation: increase Authorized Capital Stock from P10 billion to P-25 billion thru issuance of Preferred Shares, inclusion of the Generation and Sale of Electric Power in the Primary Purpose and denial of pre-emptive right to subscribe to the preferred shares to be issued on account of the increase in capital stock

29. Appointment of Mr. Albertito S. Sarte as Treasurer of Petron
30. Creation of the Board of Advisors and Appointment of Members therein
31. Financial Performance Report for the First Half of 2009 with net income of ₱1.81 billion
32. Approval of CAPEX funding requests
33. Clarification on disclosure dated August 12, 2009 re venue of the Regular Board Meeting conducted on August 12, 2009
34. Termination of Petron's Stock Transfer Agency Agreement with transfer agent, Stock Transfer Service Inc. (STSI), effective September 30, 2009.
35. Engagement of services of new stock transfer agent SMC Stock Transfer Service Corporation, effective October 01, 2009
36. Composition of Petron's New Management Team, effective September 01, 2009
37. Approval of the Authority to reclassify unissued common shares into preferred shares
38. Authority to transact with Trust Departments of Banks on investments and borrowings
39. Approval of funding requests for three (3) logistics projects
40. The impact of Executive Order 839 on Petron
41. 2010 Operating Plan and Budgets
42. Funding Requests for Major Capital Projects

The Company submitted the following Press Releases:

1. PETRON UNVEILS FUTURE PLANS TO SUSTAIN GROWTH MOMENTUM
2. PETRON POSTS ₱874-M INCOME FOR FIRST QUARTER OF 2009
3. PETRON REPORTS THE COMMERCIAL OPERATION OF ITS BTX UNIT
4. PETRON INAUGURATES A PETROFCC AND PROPYLENE RECOVERY UNIT
5. PETRON SUSTAINS RECOVERY
6. PETRON POSTS ₱1.81-B NET INCOME IN THE FIRST HALF OF 2009
7. PETRON REPORTS ₱3.37-B INCOME AS OF SEPTEMBER 2009
8. PETRON CONTINUES TO PURSUE EFFICIENCY-ENHANCING INITIATIVES
9. PETRON CONTINUES TO LOOK TO PETROCHEMICALS FOR FUTURE GROWTH IN ITS REFINING BUSINESS


**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 Manila, on April 21, 2010.

By:

  
**RAMON S. ANG**  
 Chairman/Chief Executive Officer

  
**ERIC O. RECTO**  
 President

  
**MA. CRISTINA M. MENORCA**  
 Vice President - Controllers

  
**JOEL ANGELO C. CRUZ**  
 Assistant Corporate Secretary

SUBSCRIBED AND SWORN to me this APR 30 2010 day of APR 30 2010 2010, affiants exhibiting to me their Competent Evidence of Identity, as follows:

Name	CEI No.	Date of Issue	Place of Issue
RAMON S. ANG	Passport No. ZZ202387	Dec. 20, 2006	Manila
ERIC O. RECTO	Passport No. XX2110247	Sept. 25, 2008	Manila
MA. CRISTINA M. MENORCA	Passport No. XX0025236	Sept. 19, 2007	Manila
JOEL ANGELO C. CRUZ	Driver's License No. N01-83-004112	March 17, 2008	Quezon City

Doc. No. 2;  
 Page No. 1  
 Book No. 1000  
 Series of 2010.

  
**ATTY. RAMON L. CARPIO**  
 NOTARY PUBLIC  
 UNTIL DECEMBER 31, 2010  
 PTV No. 002289 ISSUED AT PASIG CITY ON 1/14/10  
 PTV No. 020240 ISSUED AT PASIG CITY 1/4/10  
 PTV No. 021179/PTEN No. 106-918-897  
 MLE # I-001211