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, 2011
2. SEC Identification Number 31171  3. BIR Tax Identification No. 000-168-801
4. PETRON CORPORATION
   Exact name of issuer as specified in its charter
5. Philippines
   Province, country or other jurisdiction of incorporation
6. (SEC Use Only)
   Industry Classification Code:
7. SMC Head Office Complex, #40 San Miguel Avenue, Mandaluyong City 1550
   Address of principal office
   Postal Code
8. (0632) 886-3888; 884-9200
   Issuer's telephone number, including area code
9. None
   Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA
    Title of Each Class
    Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding

    Common Stock
    Preferred Stock
    9,375,104,497 Shares
    100,000,000 Shares

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

    Yes [X]    No [   ]

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

    Philippine Stock Exchange
    Common Stocks
    Preferred Stocks
12. Check whether the registrant:

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

Yes [X] No [ ]

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

Yes [X] No [ ]

13. The aggregate market value of the voting stock held by non-affiliates of the Company is ₱118,126,316,662.20 based on the price of ₱12.60 per share as of the last trading day of the year, December 29, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

None
PART I - BUSINESS

(A) Description of Business

(1) Business Development

Petron

Petron Corporation (Petron or the Company) was incorporated in the Philippines in 1966 as Esso Philippines, Inc. (Esso). The company was renamed Petrophil Corporation (Petrophil) in 1973 when the Philippine National Oil Company (PNOC) acquired Esso. In 1985, Petrophil 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 13, 2008, Aramco Overseas Company B.V. (AOC), one of the Company’s major shareholders in 1994, entered into a share purchase agreement with Ashmore Investment Management Limited and subsequently issued a Transfer Notice to PNOC to signify its intent to sell its 40% equity stake in Petron. PNOC, which then held 40% of Petron’s capital stock, waived its right of first offer to purchase AOC’s interest in Petron. Eventually, SEA Refinery Holdings B.V. (SEA BV), a company incorporated in the Netherlands and owned by funds managed by the Ashmore Group, acquired AOC’s 40% interest in Petron in July 2008. Pursuant to the Securities Regulation Code, Ashmore complied with the requirements of mandatory tender offer.

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 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.

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

At its April 29, 2010 meeting, the BOD endorsed the amendment of the Company’s Articles of Incorporation and By-Laws increasing the number of directors from 10 to 15 and quorum from six (6) to eight (8). The same was approved by the stockholders during their annual meeting on July 12, 2010. The amendment was approved by the Securities and Exchange Commission (SEC) on August 13, 2010.

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

On July 30, 2010, the Petron Corporation Employees’ Retirement Plan (PCERP) bought 2,276,456,097
common shares in Petron comprising 24.025% of the total outstanding capital stock thereof from SEA BV. The purchase and sale transaction was executed on the board of the PSE at the price of P7.20 per share.

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

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

On December 15, 2010, SMC exercised its option to acquire the remaining 60% of SRC from SEA B. V. pursuant to the Option Agreement. With the exercise of the option, SMC beneficially owns approximately 68% of the outstanding and issued shares of stock of Petron. As such, on that date, SMC obtained control of SRC and Petron. As of end of December 2011, Petron’s major shareholders comprised of SRC, PCERP, and SMC.

The registered office address of Petron and its Philippine-based subsidiaries (except Petron Freeport Corporation which has its principal office in the Subic Special Economic Zone) is at the SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

Subsidiaries

Petron had seven (7) subsidiaries as of December 31, 2011, namely:

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

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

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

- **Petron Foundation, Inc.** (PFI) was incorporated 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. It has successfully forged partnerships with local government units, non-governmental organizations and international organizations such as the United States Agency for International Development (USAID) for the implementation of its projects.

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

- **Petron Marketing Corporation** (PMC) was incorporated on January 27, 2004 with the same business purpose as PFC. PMC is a wholly-owned subsidiary of Petron.

In the beginning of 2011, PMC operated four (4) service stations at different locations. Two (2) of these service stations had a Treats convenience store (C5 Diego Silang and Katipunan), one (1) had a P-Shop (Granada), and another one (1) was a micro-filling station (San Miguel). PMC C5 Diego Silang and Katipunan stations housed several locators which contributed additional income for the subsidiary. PMC also operated 16 quick-service restaurants (10 Chowking, four (4) Jollibee, one (1) Goldilocks, and one (1) Gloria Jeans) and two (2) Car Care Centers, which are located within the service stations.

By the end of 2011, PMC turned over all of its company-owned, company-operated stations to third party dealers, including the two (2) Car Care Centers. Nevertheless, PMC continues to concentrate in the franchising business and support the network expansion program of the Reseller Trade of the National Sales Division of Petron by providing manpower support for start-up operations.

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

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

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

**Operating Highlights**

**National Sales Division**

Amid a highly competitive market environment, Petron’s 4.9% sales decline from 2010 is nearly at par with Industry’s 4.4% contraction. Market share is slightly down at 37.7%, but Petron still emerged as market leader in all trades including the Lube Trade.

Petron Reseller Trade’s 2011 volume decline of 4.7% was attributed to reduced motorist demand given increasing fuel prices and inclement weather conditions and aggressive expansion by competition which put up about 280 new stations in 2011. Furthermore, lower volume in 2011 came on the heels of high 2010 sales due to election-related activities and effects of the closure of the product pipeline of the First Philippine Industrial Corporation, notably during the latter part of 2010.

Industrial-Civil Trade’s 2011 volume declined by 9.3% primarily due to reduced dispatch of independent power producers (IPPs) in favour of cheaper non-oil based plants. Excluding IPPs, Industrial-Civil Trade’s 2011 volume grew by about 7% in 2011, supported by acquisition of new and competitive accounts, increased participation in split-supplied accounts, and expansion of existing customers.
Petron’s 2011 National Power Corporation (NPC) sales slid by 9.1% due to the reclassification of privatized NPC plants PB-117 and Dingle DPP II to Industrial-Civil sector in February 2010 and June 2010, respectively. Oil-based NPC plants likewise reduced operations with the prevailing La Niña season in 2011.

Gasul sales surged by 15.6% versus 2010, driven by higher withdrawals of auto liquefied petroleum gas (LPG) accounts and sustained high sales to allied and independent refillers.

Lube sales grew by 5.0% primarily due to higher sales to Petron Sale Centers, bulk traders, and rebrand accounts.

Reefinery

2011 proved to be an impressive year for PBR, most especially in the aspect of processing efficiency, safety, and management system. It was also the memorable golden year for PBR as it celebrated its 50th anniversary. The celebration was capped with a capsule-laying ceremony for the Refinery Master Plan Phase 2 (RMP-2). The highlights of 2011 include the following:

• **Construction/Erection of Refinery Solid Fuel Fired Boilers (RSFFB).** As of end 2011, construction of the new power plant was about 65% complete.

• **Receipt of “Award of Excellence” from Safety Organization of the Philippines, Inc. for 13.4 million safe man-hours attained from September 1, 2008 to September 1, 2011.** As of December 31, 2011, PBR already achieved 14.9 million man-hours without Lost Time Accident (LTA), a milestone in PBR’s history.

• **Maintenance of the Integrated Management System (IMS) certification for three consecutive years since IMS implementation in December 2008.** On May 24-27, 2011, PBR was audited by TUV-SUD PSB Philippines, Inc. with its compliance with ISO 9001:2008, ISO14001:2004 and OHSAS18001:2007. This was the second surveillance audit for Quality Management System (QMS) and Health and Safety Management System (HSMS) and the second recertification audit for Environmental Management System (EMS). This is the third time that PBR has sustained the certification since the implementation of IMS in December 2008.

• **Successful holding of the Refinery’s 15th Continuous Improvement and Productivity (CIP) Technical Conference and awarding of the first batch of CIP Plus qualifiers.** The 15th CIP Technical Conference was successfully held in November 2011. For this season, 21 CIP projects were submitted, bringing a cumulative total of 472 CIP projects submitted since the first Technical Conference. Five (5) CIP Plus projects, the first batch of winners judged as highly outstanding projects, were awarded during the conference.

• **Successful launching of PBR’s Special Campus Recruitment Program - Scholarship Grant.** Eighty-five (85) scholars from the five (5) biggest engineering schools in the Philippines were chosen as the first batch of recipients of this program. The program aims to ensure the availability of manpower resources for PBR’s current organizational requirement and the expanded demand for engineers for the upcoming RMP-2 and RSFFB projects in the next two (2) to three (3) years. This program will provide learning and future career opportunities for undergraduate engineering students of selected top engineering schools in the country. This scholarship program is in addition to the on-going scholarships granted to nine (9) students at a Bataan-based engineering school.

• **Zero reportable safety incident.** PBR sustained its exceptional safety performance, meeting the target Integrity Safety Performance Index (ISPI) of 0.0, as no fatal/disabling or major vehicular accident occurred during the period.
• **Sustained conduct of regular Corporate Social Responsibility (CSR) programs.** For the year, PBR held the regular tree-planting activity, Kontra Kalat sa Dagat, medical and dental mission, and Soup Kitchen Feeding program, and complemented these with various donations and financial assistance to charitable projects.

• **Provision of manpower support to Polypropylene Plant Inc (PPI).** PBR provided manpower support for the rehabilitation and successful commissioning of the plant of PPI.

### Supply and Operations

• **Ethanol Program.** For January to July 2011, Petron’s ethanol compliance level was at 5.8%, slightly higher than the 5% mandate for the period. Total volume lifted from domestic ethanol producer, San Carlos Bioenergy Inc, was 4.7 million liters while total imports stood at 67 million liters.

• **Baseoil Supplier Network Expansion.** The Company continues to expand its network of baseoil suppliers. For 2011, the Company added two (2) more suppliers, making a current list of 30.

• **Major Projects on Depots.** Several major projects were implemented this year which expanded Petron’s logistical support in the areas where it operates, enabling the Company to comply with the Biofuels Act, and assisted the National Sales Division in serving the fuel requirements of its various accounts.

• **100% Double Hull for White Oil Vessels.** The Maritime Industry Authority (MARINA) issued Marina Circular No. 2010-01 or the Revised Policy Guidelines on Tankers which requires that all white tankers and barges should be double-hulled by December 31, 2011. All white product contracted vessels used by Petron have complied with MARINA’s requirement. For black tankers, all contracted vessels have been double-hulled since 2008.

### Information Technology

For 2011, the continuing implementation of the Point of Sale systems benefited an additional 300 service stations throughout the country. Primarily used as a tool to monitor sales and inventory, the project has also resulted in shorter customer queues, faster service turnaround and accurate transactions in forecourt operations. It has brought the Petron experience to new levels of total service satisfaction.

In the procurement and purchasing field, the current Supplier Relationship Management system from SAP was further enhanced to meet the demands of a dynamic marketplace. Web access functionalities, contract management and data storage optimization were developed and improved for all users and stakeholders. Efficiencies in vendor interactions and business communications have cut down the time and resources required in the order-to-delivery processing of goods and services needed by the company.

### Human Resources

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

The year 2011 saw PBR achieve several milestones in its operations as well as recognitions from local government agencies. As earlier stated, PBR achieved a significant safety milestone of attaining three (3) years without Loss Time Accident (LTA). This major accomplishment is equivalent to 13.4 million man-hours or 1,094 integrated man-days of safe refinery operations. In spite of the increased number of activities at the refinery during the year due to major turnaround and construction of pressure vessels and atmospheric tanks, the refinery achieved the target ISPI of 0.0 for the year which means, among others, that no fatal, disabling or major vehicular accident occurred during the period.

Hazards and unsafe behaviors identified were addressed immediately to prevent them from causing accidents/incidents. By complementing this with regular training, safety audits and drills, the refinery attained 1,094 days work, or equivalent to 13.4 million man-hours, without LTA starting September 1, 2008.

On the other hand, the Company’s Supply and Operations Group attained 40 Million Safe-Man-hours Milestone last May 10, 2011. With the annual safety programs being implemented by the Supply and Operations Group, all 31 terminals and depots of Petron were conferred with the 2011 Safety Milestone (SMile) award by the Department of Labor and Employment (DOLE) - Bureau of Working Conditions last December 12, 2011 for their safety achievements in 2010.

• Inspections / Audit. Safety inspections were conducted at 35 depots and terminals by Operations Safety to ensure that the plants adhere to the Company’s standards on health and safety of all their employees, customers, suppliers, contractors and the general public. Safety inspections of sites at the contractors’ were also done. The Company’s Corporate Technical & Engineering Services Group completed safety and mechanical inspections in nine (9) depots/terminals, 47 service stations and six (6) LPG-filling plants as part of the task force assigned to check on dealers’ facilities.

• Emergency Preparedness & Actual Incident/Accident Response. Operations’ Health, Safety and Environment rigorously required all depots and terminals to conduct drills on emergency response to enhance the competency of its personnel to a level comparable with noted disaster response organizations. A total of 83 fire drills, eight (8) oil spill drills and eight (8) other emergency drills were conducted in all facilities nationwide.

• Safety in Depot and Plant Operations. Depots and terminals receive, store and distribute finished petroleum products and various grades of lube oils and additives. Supply and Operations Group has continued to maintain its zero Lost Time Incidents (LTI) last year, posting a combined record of 43.47 million man-hours covering the whole division and its contractors as of December 31, 2011. All 31 depots and terminals attained zero LTI in 2011. Depot operations subscribe to Quality, Safety and Environment Management Systems to guide personnel in maintaining the quality, safe handling and delivery of products to customers.

The Company has continuing major programs for its road transport which are being carried out year in -year out. One of the major continuing programs is the improvement of tank truck safety, product security and delivery reliability. The Company is continuously improving on the skills of drivers by providing adequate training and instruction as well as monitoring of third party tank truck inspections and haulers audits.
Corporate Social Responsibility

PFI continued to be at the forefront of Petron’s CSR and sustainability efforts in 2011 anchored on the banner of Fueling HOPE. In 2011, PFI celebrated 15 years of helping the Filipino children and youth overcome poverty through relevant and sustainable CSR programs in the areas of education, environment, entrepreneurship and employment in partnership with all our stakeholders. Highlights of the PFI’s accomplishments for 2011 include the following:

A. Education

• **Tulong Aral ng Petron**

At the end of 2011, Tulong Aral ng Petron had a total of 4,513 scholars enrolled from Grades 1 to 6: 3,599 scholars in 23 partner schools in the National Capitol Region and 914 scholars in 10 partner schools in Mindanao. A total of 439 youths - 264 in 4th year, 94 in 3rd year and 81 in 1st year - are receiving scholarships to go to high school in 27 public schools in Metro Manila (Land Bank of the Philippines is sponsoring 97 scholars while Petron is supporting 342). The program is being implemented for Petron by the Philippine Business for Social Progress (PBSP). The Tulong Aral High School Scholarship Program is a partnership with the Department of Education (DepEd), the Department of Social Welfare and Development (DSWD), and the Land Bank of the Philippines.

With the pioneer batch of Tulong Aral High School scholars all set to complete their secondary education, PFI secured management approval to undertake the Tulong Aral College Scholarship Program. Under this new initiative, Petron will make available 10 scholarship slots for each of the following courses: (i) Bachelor’s Degree in Engineering, (ii) Bachelor’s Degree in a four (4)-year course relevant to Petron’s business, and (iii) a technical/vocational course for Tulong Aral seniors who qualify in the schools’ admissions procedures. PFI sees this as a next step in the company’s road map for an integrated poverty alleviation strategy, with the college scholars eventually earning an opportunity to be employed in Petron.

• **Petron Schools - Partnership with USAID EQUaLLS**

Petron concluded its partnership with USAID through a Global Development Alliance with the Education Development Center (EDC) which aimed to support the second phase of the Education Quality and Access for Learning and Livelihood Skills (EQuALLS) project. By the end of 2011, Petron was able to build a total of 108 new classrooms or 59 two (2)-classroom USAID-Petron Schools, furnished with comfort rooms, student desks, teacher’s tables and chairs, bookshelves and wall fans and refurbished 480 existing ones, for a total of 588 built and refurbished classrooms in all.

B. Environmental Sustainability

• **Boracay Beach Management Program**

The Boracay Beach Management Program, a partnership among PFI, SMC, the Municipality of Malay in the Province of Aklan, and the Boracay Foundation, Inc., which aims to foster multi-stakeholder participation in attaining sustainable development for Boracay Island, celebrated its first year anniversary in September 2011. The celebration was highlighted by a historic “human chain”, where more than 3,000 locals and visitors of the island linked arms as a symbolic gesture of the stakeholders’ unity, unmistakably echoing the program’s slogan “SALI AKO D’YAN!” (Count Me In). The program also included the launching of the Adopt-a-Tree Program among residents and high school students and was attended by Department of Environment and Natural Resources (DENR) Secretary Ramon Paje, Presidential Adviser for Environmental Protection and Laguna Lake Development Authority General Manager J.R. Nereus Acosta, Department of the Interior and Local Government (DILG) Undersecretary Rico Puno, DENR Environment Management Bureau Director Atty. Juan Miguel Cuna, and DENR Forestry Management Bureau Director Marlo Mendoza.
• **Adopt-An-Estero/River Program for Marikina River and the National Greening Program**

Petron partnered with the DENR and the City Government of Marikina to support the Adopt-An-Estero/River Program for the Marikina River and the National Greening Program. Under this agreement, Petron will undertake environmental improvement on vital water tributaries leading up to Marikina River, starting with the four (4)-kilometer Concepcion Creek. Petron employees and partners in all the facilities of Petron nationwide commit to undertaking activities in their respective locations to clean up the rivers and their tributaries and contribute to the program's goal of planting 1.5 billion trees from 2011 to 2016.

• **Guimaras Environmental Rehabilitation**

Petron’s continuing efforts to bring back Guimaras to its original state yielded another milestone when DENR Region 6 reported that all the 24 monitoring stations throughout the island province attained the standards in terms of oil and grease limit. As a result, upon the recommendation of the members of Task Force Guimaras, DENR Region 6 declared the 24 stations compliant with DENR Water Quality Standards relating to oil and grease limits.

**C. Engaging Employees and Stakeholders**

2011 was a milestone for employee volunteerism in Petron. In what was a first for the Company - and probably in the history of Philippine business - Petron achieved a 100% participation among its employees. Employees from all Petron divisions across the country pledged at least an hour of their salaries for the last working day of 2011 to raise funds for Tulong Aral ng Petron under the “Share Your Spare” campaign.

Petron employees put in an equivalent of 16,120 hours sharing their time and/or talent to various efforts in education, environment and other community endeavors.

**D. PFI Marks Its 15th Year**

PFI celebrated its crystal anniversary in 2011 with a Fellowship Night held for its partners, Petron employees, and beneficiaries. Several highlights capped the celebration, including:

- Signing of a Memorandum of Agreement with the DepEd renewing Petron’s support to the Adopt-A-School Program with a ₱120.0 million social investment for the next two (2) years;
- Symbolic culmination of the four (4)-year partnership with USAID in Muslim Mindanao through the USAID-Petron Schools classroom construction and repair and Educators Professional Development programs teacher training;
- Turnover of a ₱10.0 million support to Habitat for Humanity’s iBuild Campaign. As one of the Prime Movers of the iBuild campaign, Petron is helping provide decent homes in sustainable communities for the next four (4) years;
- Launch of Petron’s 2010 Sustainability Report;
- Launch of the coffee table book entitled “Of Hopes and Dreams”, a publication that captures in words and images PFI’s 15-year voyage of doing good and of fueling hope in the lives of the Filipino people.

**E. Reaping the Rewards of Doing Good**

Petron was bestowed the prestigious Gold Award for BEST ENVIRONMENTAL EXCELLENCE during the 3rd Global CSR Awards organized by Singapore-based The Pinnacle Group International in Cebu. The Company was conferred the honor “for integrating environmental performance into the company’s sustainable development strategy and delivering proven business benefits.” The award recognized the Company's continuous efforts to improve its environmental performance in key areas namely energy efficiency, carbon footprint reduction, and waste management across its supply chain. PFI
General Manager Marilou G. Erni was also conferred the Gold Award for CSR Leadership. This individual award was given for the promotion of all aspects of CSR within and outside Petron.

(2) Business of Petron

(i) Principal products or services and their markets

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

The major markets in the petroleum industry are the reseller, 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 SBF supplies the Company’s requirements and serves as Innospec’s Asian supply hub.

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

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

Below is the summary of the percentage of sales and revenues of domestic and foreign sales of the Company and its subsidiaries:

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Exports</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009, in million pesos</td>
<td>163,757</td>
<td>12,774</td>
<td>176,531</td>
</tr>
<tr>
<td>2009, in percentage</td>
<td>93%</td>
<td>7%</td>
<td>100%</td>
</tr>
<tr>
<td>2010, in million pesos</td>
<td>207,304</td>
<td>21,790</td>
<td>229,094</td>
</tr>
<tr>
<td>2010, in percentage</td>
<td>90%</td>
<td>10%</td>
<td>100%</td>
</tr>
<tr>
<td>2011, in million pesos</td>
<td>246,695</td>
<td>27,261</td>
<td>273,956</td>
</tr>
<tr>
<td>2011, in percentage</td>
<td>90%</td>
<td>10%</td>
<td>100%</td>
</tr>
</tbody>
</table>

(iii) Distribution methods of products or services

Petron’s bulk petroleum products are refined from crude oil at its refinery in Limay, Bataan. From the PBR, products are distributed to the various bulk storage terminals and direct consumer accounts nationwide using a fleet of barges and tankers. From the storage depots, bulk products are hauled by tank trucks to service stations and to direct consumer accounts. Products may also be sourced from “rationalized” depots operated by other oil companies.
(iv) New products or services

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

New Products

1. **Sprint 4T Racer** - an advanced motor oil for modern, high performance motorcycles
2. **Sprint 4T Econo** - a high quality, cost-effective engine oil suitable for use in four-stroke motorcycles operating under mild to moderate conditions
3. **Rev-X Pantra** - a medium tier, multi-grade diesel engine oil designed to surpass the demanding performance requirements of indirect injected engines including off-road vehicles
4. **Petron Polymer-Modified Bitumen (PMB)** - a special grade of asphalt for heavy duty asphalt pavement applications which has passed the standard specifications of the Department of Public Works and Highways (DPWH) for the construction of highways, bridges and airports; granted an accreditation by DPWH for its use in porous asphalt pavement applications
5. **Petromar HF Marine Diesel Engine Oil** - an oil that is designed for engines using low quality fuel oils that will allow ship owners and power plant operators to optimize their operations using low quality but less expensive fuel oils

Product Enhancements

1. Upgrade of Ultron Race from API SM to API SN, which is the highest standard in passenger car motor oil set by the American Petroleum Institute (API)
2. Upgrade of Rev-X All Terrain from API CF to API CJ-4/SM to qualify in all requirements of heavy duty engines
3. Enhancements in additive packages of Petron Turbo Diesel and Diesel Max
4. Enhancement of Carbon Buster Packaging in 600 ml aerosol cans
5. Study on the effects of ethanol-gasoline blends on rubber and polymeric materials in the containment and fuel delivery systems

(v) Competition

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

The country’s Gross Domestic Product (GDP) growth is estimated at 5.0% in 2011, coming from a high GDP of 7.3% in 2010 due to election-related spending.

**Flat Fuel Demand.** Based on Department of Energy (DOE) exchange data, the country’s total petroleum demand almost stood flat in the past 10 years. Increasing fuel prices put pressure on demand, largely noted in fuel oil, with users shifting to alternative energy sources such as coal.

**Growing Industry Competition.** Deregulation saw the entry of more than 90 other industry players, rendering the petroleum business more competitive. In the reseller sector, competition has shifted from the Oil Majors to the growing New Player sector. Count of new player outlets has been increasing from 695 in 2001 to about 1,700 in 2011. New players collectively built 281 outlets in 2011, compared with Oil Majors’ combined 251. Aggressive expansion of new players is fueled by attractive dealer package, healthy gasoline margins, and flexible product sourcing. In the industrial sector, investments such as depot construction continue to pour in from players (both Oil Majors and independent players) aimed at increasing market share and tapping new markets. The acquisition of Shell’s LPG business in the Philippines by Isla Petroleum & Energy is also expected to put more pressure on the already price-sensitive LPG refiller sector as the new entrant attempts to establish a critical mass in view of its
limited brand equity. In the lubes market, intense competition among over 50 brands, including big names like Castrol, Mobil, Shell, and Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of uncharted markets like auto-dealerships and malls.

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

Aside from the two (2) major oil companies, namely, Shell and Chevron, Petron also competes with other players which had a collective market share of 26.7% as of year-to-date August 2011.

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

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

In 2011, Petron purchased most of its crude from Saudi Aramco through its market interface, PSTPL. It also purchased Labuan crudes from Petronas. Other crudes like ESPO, Vityaz, Sokol and Lower Zakum were purchased on spot basis from different companies. Petron renewed its Crude Oil Supply Agreement with Saudi Aramco up to October 2012 through PSPTL, with automatic one-year extensions unless terminated at the option of either party. Petron also renewed its crude oil supply agreement with Petronas covering the period January to December 2012, through PSTPL.

LPG imports were awarded to Shell International Eastern Trading Company (SIETCO) for the period August 2011 to July 2012. LSFO and asphalt imports have been sourced from separate agreements with Petrobras Singapore Pte. Ltd. (the trading arm of Petrobras Brazil), and Trafigura Pte. Ltd., respectively.

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

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

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

1) Petron has existing supply agreements with various SMC subsidiaries. Under these agreements, Petron supplies the bunker, diesel fuel and lube requirements of selected SMC plants and subsidiaries.
2) Petron purchases goods and services, such as those related to construction, information technology and shipping, from various SMC subsidiaries.
3) Petron entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,759 square meters. The lease, which commenced on June 1, 2010, is for a period of one (1) year and is subject to yearly extensions.
4) Petron also pays SMC for its share in common expenses such as utilities and services.
5) Petron leases from its affiliate, NVRC, some parcels of land where some of its depots, terminals and service stations are located.
6) Petron retails its fuel products through its subsidiaries, namely PMC and PFC. PMC also leases service station sites from NVRC.
(ix) Patents, trademarks, licenses, franchises, concessions, royalty agreements


Pending Trademark Registration Applications. Petron has pending applications for registration of the following trademarks: Grease Solve, Process Oils, Petromate with Logo, Powerburn 2T, Petron GX, Asphaltseal, Cable Lube, Adgas, It’s Oil You Need, 2T Enviro with Oil Drop, Rover, Pure Distilled Drinking Water, Carbon Flush, Fiesta Gas 2.7kg cylinder, Fiesta Gas 5kg cylinder, Fiesta Gas 11kg cylinder, Fiesta Gas 5kg. POL-VALVED, Fiesta Gas 11kg. POL-VALVED, Fiesta Gas 22kg. POL-VALVED, Fiesta Gas 50kg. POL-VALVED, Bulilit Station and Fuel Value, Gasulito (7 kg.) container, “How far can you go on one full tank these days?”, Bulilit Station (Gasoline Station), Fuel Journeys, High Performance System, Petron Pinoy Gasoline, Petron Turbo Diesel & Boomerang rep High Performance Diesel, HPS, High Performance Gasoline, Petron Blaze 100, Petron Lakbay Pinoy, Petron Primo Diesel HPS, Petron Xpert Diesel HPS, Petron Turbo Diesel HPS, Petron Pinoy Fuels & Device, Petron Pinoy Diesel & Device, Petron Pinoy Regular & Device, Sagip Alalay, Econo, Elite, Pantra, Limay Energen Corporation, Racer Maximum Performance, Petrolene, Petron Value Card and Device and Go Petron! Get Rewards & Benefits.

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

(x) Government Approval of Principal Products or Services

Government approval of Petron products and services is not generally required. Petroleum products refined at the PBR conform to specifications under the Philippine National Standard. 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

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

**Biofuels Act of 2006.** The Biofuels Act of 2006 mandates that ethanol comprise 5% of total gasoline volumes, and that diesel contain 2% cocomethyl ester (CME). By February 2012, all gasoline grades should contain 10% ethanol. However, the DOE will extend a nine (9)-month exemption to regular gasoline from the mandated ethanol content pending completion of technical testing on ethanol compatibility with motor vehicle engines especially the two (2)-stroke motorcycle engines. To produce compliant fuels, the Company invested in CME injection systems at the refinery and 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.

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

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

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

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

**Laws on Oil Pollution.** To address issues on marine pollution and oil spillage, the MARINA mandated the use of double-hull vessels for transporting black products beginning end-2008 and by 2012 for white products.

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

**Clean Air Act.** Petron invested in a Gasoil Hydrotreater Plant and an Isomerization Plant to enable it to produce diesel and gasoline compliant with the standards set by law.
(xii) Estimate of the amount spent during each of the last three fiscal years on research and development activities

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

R&D spent a total of ₱42 million in 2011, slightly lower than previous year’s expense of ₱43 million. Expenses in 2009 amounted to ₱10 million.

(xiii) Costs and effects of compliance with environmental laws

Compliance with the various environmental laws like the Renewable Energy Act, the Biofuels Act, the Clean Air Act, the Clean Water Act etc. entails costs and additional investments on the part of the Company, resulting in higher production costs and operating expenses. For the PBR, the Company spent a total of ₱92.4 million for treatment of wastes, monitoring and compliance, permits and personnel training.

(xiv) Total number of employees

As of December 31, 2011, the total manpower of the Company and its subsidiaries was at 2,111 broken down as follows: 1,486 from Petron, five (5) from Petrogen, 10 from NVRC, three (3) from PSTPL, 563 from PMC, and 44 from PFC. The workforce may increase significantly in the ensuing 12 months due to expansion projects in the PBR and of the National Sales Division.

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

Petron maintains and fosters healthy and professional working relationship with the three (3) recognized labor unions. This relationship is anchored on open-door policy, quick resolution of concerns, easily accessible communication channels, and understanding of common goals.

For the past 10 years, there have been no strikes by the labor unions, highlighting the conducive working environment in the company and the excellent working relationship between management and the unions.

In addition to the statutory benefits, the Company provides hospitalization insurance, life insurance, vacation/sick and emergency leaves, and computer, company and emergency loans to employees. It has a savings plan wherein an eligible employee may contribute 5-15% of his monthly basic salary. The Company, in turn, contributes a corresponding maximum of 5% to the member-employee’s account in the savings plan. The Company also has the “Rewarding Excellence through Alternative Pay Program”, a performance incentive program that rewards eligible employees who contribute to the achievement of the Company’s annual business goals.
(xv) Major Risks Involved

(i) Risk Management Framework & Process

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

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

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

(ii) Major Risks

The Company classifies a risk as a major risk if it assesses the risk event to both have a relatively high probability of occurring and a substantial adverse impact on the Company if the risk would occur. The major risks that the Company managed in 2011 were substantially the same as those in the previous year since there were no fundamental changes in the nature of the Company’s operations. These risks were the following:

- Foreign exchange risk arising from the difference in the denomination of majority of revenues in Philippine Pesos against that for the bulk of costs in US Dollars. Changes in the foreign exchange rate would result in the revaluation of key assets and liabilities, and could subsequently lead to financial losses for the Company.

- The risk of substantial disruptions in the Company’s operations caused by accidents, process or machinery failure, human error or adverse events outside of human control. This risk could also include delays in the implementation of major capital expansion activities. These disruptions may result to injury or loss of life, as well as financial losses should these disruptions lead to product run-outs, facility shutdown, equipment repair or replacement, insurance cost escalation and/or unplanned inventory build-up.

- Profit margin and cash flow risk arising from fluctuations in the relative prices of input crude oil and output oil and petrochemical products. Changes in output and input prices, particularly when mismatched, may produce significant cash flow variability and may cause disruptions in the Company’s supply chain, as well as higher financing expenses.

- Regulatory risk, arising from changes in national and local government policies and regulations that may result to substantial financial and other costs for the Company, either directly or indirectly.

The Company has determined that none of the risk factors faced by any of its subsidiaries would be a major risk. These risk factors either have a low probability of occurring or have an insignificant potential impact. Thus, while subsidiary-specific risks were considered in the risk management process, these are considered relatively minor.
(iii) Management of Major Risks

(a) Foreign exchange risk

- The Company hedges its dollar-denominated liabilities using forwards, other derivative instruments and the generation of dollar-denominated sales. It avoids the creation of risk from derivative speculation by limiting the use of derivative instruments up to 100% of the value of the underlying dollar-denominated liabilities net of dollar-denominated assets.

- Dollar-denominated assets and liabilities and the resulting potential foreign exchange losses are recorded on a daily basis through software that monitors financial transactions under the Company’s enterprise resource planning system. This allows real-time awareness and response to contain losses posed by foreign exchange exposure. Such software is also capable of tracking risk exposures arising from other market sensitive financial variables, such as interest rates and commodity prices.

(b) Risk of operational disruptions

- The risk of operational disruptions is most relevant to the refining unit since disruptions in the PBR can have severe and rippling effects.

- The Refinery Division has been implementing programs designed to directly address the avoidance of operational disruptions through effective maintenance practices and the inculcation of a culture of continuous process improvement.

- The Company has a corporate-wide health, safety and environment program that likewise addresses the risk of operational disruptions.

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


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

(c) Profit margin and cash flow risk

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

- The Company endeavors to arrange long-term contracts for some of its fuel and petrochemical products whenever these are financially attractive. Long-term sales contracts provide a partial hedge on future cash flow uncertainty.
• The Company uses cash flow projection software that enables it to proactively respond to potential future cash flow imbalances. It, likewise, maintains access to credit lines in excess of typical requirements so that funds can be readily tapped in case of a cash flow squeeze.

(d) Regulatory risk

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

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

(B) Description of Property

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

Petron also operates an extensive network of terminals and bulk storage and satellite facilities and LPG plants which are located in Luzon, Visayas and Mindanao. Its major terminals and plants are in Limay, Bataan; Pandacan, Manila; Rosario, Cavite; Uong, 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 PBR, the terminals, the bulk plants and the service stations are located, these lands are being leased from the PNOC and NVRC on renewable 25-year leases. Petron’s lease agreements for lands owned by other private persons vary as to their terms and conditions, including the period of lease.

The lease agreement with PNOC on refinery property is until 2039, renewable for another 25 years upon mutual agreement of the parties. Lease charges on refinery facilities escalated at three percent (3%) per annum until 2011. The leased premises shall then be subject to reappraisal every fifth year of the rental period beginning on 2012. The amount equivalent to 5% of the reappraised value of the property shall be the new rental rate, subject to an annual three 3% escalation for the four (4) years following the appraisal. Lease payments amounted to ₱103.8 million in 2011.

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

In the year 2011, Petron was involved in certain litigations, some of which are material as this term is understood under the law. These are:

1. Tax Cases

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

  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 companies registered with the Board of Investments (BOI), the Company was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the Court of Appeals where the case was still pending as of December 31, 2011.

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

  Relief sought on Appeal: The BIR sought a reversal of the CTA decision and prayed for judgment ordering Petron to pay ₱1,107,542,547.08 in excise tax liabilities for 1993-1997 inclusive of surcharges and interest, plus 20% annual interest from April 22, 1998.

  Status: The Court of Appeals issued a resolution suspending decision on the case until the termination of the investigation of the Department of Finance (DOF) on the TCCs assigned to Petron. Petron filed its motion for reconsideration and Motion requesting for the re-raffle of the case and its immediate resolution both of which remained unresolved as of December 31, 2011.

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

  Background: In May 2002, the BIR issued a collection letter for deficiency taxes of ₱254 million plus interest and charges for the years 1995 to 1998, as a result of the cancellation of TCCs and tax debit memos (TDMs) by the 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 through a Petition for Review filed on October 1, 2007. On December 3, 2008, after Petron filed its Manifestation and Motion informing the Court of the Supreme Court Decision in the Pilipinas Shell case¹, the

¹ Petron filed a similar Manifestation and Motion before the Court of Appeals in CA-G.R. SP No. 55330 but the CA still has not acted on it as of date.
CTA En Banc reversed the unfavorable decision of the CTA 2nd Division. The Commissioner of Internal Revenue (CIR) filed a petition for Review with the Supreme Court.

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

Status: The case was deemed submitted for resolution as of December 31, 2011.

The basic tax involved in the two assessments is ₱910.7 million.

2. Pandacan Cases

   Civil Case No. 07-116700
   RTC Manila Br. 41
   Date Filed: February 8, 2007

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

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

Status: On October 9, 2007, Petron already formally offered its evidence in support of its application for a Writ of Preliminary Injunction. The counsel for the City of Manila postponed its presentation of witnesses with the directive from her superiors to initiate a dialogue with Petron regarding the enforcement of the perimeter easements. Petron’s counsel interposed no objection and is now just waiting for an update on negotiations from the City of Manila.

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, save for the matter of the 10-meter easement from the riverbank being implemented in the subject ordinance.

b. Social Justice Society (SJS) v. Alfredo S. Lim
   SC G.R. No. 187836 Supreme Court

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

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1 Computed from June 27, 2002 until the amount is fully paid, if the Division's decision were enforced, damages would reach a total of ₱2,222,846,609.60.
Status: On June 1, 2009, the SJS officers filed a petition for prohibition against Mayor Lim before the Supreme Court, seeking the nullification of Ordinance 8187. The lawyers of the oil companies have met and would come up with a plan of action, including intervention once the Supreme Court directs the City of Manila to comment or gives due course to the petition. 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 Motion for Leave to Intervene dated November 27, 2009 and Comment-in-Intervention dated November 27, 2009.

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

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

Likely Outcome: It is likely that the Court will affirm the validity of Ordinance No. 8187, allowing the continued operation of the oil terminals at Pandacan.

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

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

Status: On June 5, 2009, former Manila Mayor Jose Atienza, represented by the former City Legal Officer, filed his own petition with the Supreme Court seeking to stop the implementation of Ordinance 8187. The Court 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.

Petron filed its Manifestation on November 30, 2010 to inform the Supreme Court that it had decided to cease operation of its petroleum product storage facilities in Pandacan, Manila within five (5) years or not later than January 2016 due to issues on the environmental aspects and the location of the terminal.

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

3. Guimaras Oil Spill

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

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

SMDC, taking into consideration the vessel’s trim, stability and draft, declared to Petron that the vessel MT Solar I can safely load approximately 13,500 barrels of cargo as stated in the Fixture Note, Notice of Readiness and Seaworthiness Certificate. On this basis, Petron relying on the declaration of SMDC loaded the quantity as specified by SMDC. Unfortunately, the vessel MT Solar I sank off Guimaras when it encountered bad weather on or about August 11, 2006.
In September 2006, the Special Board of Marine Inquiry (SBMI) was created by the Philippine Coast Guard for the purpose of determining the administrative liability of the crew, owner of the vessel and other involved parties. The SBMI in its initial findings found Petron liable for allegedly overloading the vessel.

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

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.

b. People of the Philippines vs. Clemente Cancio, et. al.

Criminal Case No. 12-1721
RTC, Branch 65
San Miguel, Jordan, Guimaras

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

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

On July 14, 2011, the Provincial Prosecutor’s Office of Guimaras issued a Joint Resolution finding probable cause to indict the owner and the Captain of MT Solar 1 and Messrs. Alcantara and Mr. Faddagh for Violation of Section 28, Paragraph 5 in relation to Section 4 of the Clean Water Act.

Messrs. Alcantara and Faddagh filed their Motion for Reconsideration with the Provincial Prosecutor’s Office of Guimaras on August 1, 2011 with the explanation that the Company did not hire or engaged the services of the Captain. Under Republic Act No. 9483, otherwise known as “The Oil Pollution Compensation Act of 2007”, it is the owner of the vessel, not the charterer, that is liable for any oil spill or pollution damage that may result from the operation of the said vessel.

A Motion to Inhibit the Provincial Prosecutor from resolving the Motion for Reconsideration and from further acting on the case was also filed.

Status: The Motion for Reconsideration and Motion for Inhibition remained unresolved as of December 31, 2011.
c. Rogelio Arsenal, Jr., et al. v. SMDC, Petron, et al.
   Civil Case No. 09-0394;
   RTC Br. 65, Jordan, Guimaras

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

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

In the Arsenal case, respondents filed a Motion to Hear Affirmative Defenses based on lack of jurisdiction for non-payment of docket fees, prescription and lack of cause of action but it was denied. Respondents went to the Court of Appeals (CA) on a Petition for Certiorari.

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

Status: In the Arsenal case, respondents filed with the CA a Compliance with the Resolution requiring submission of pleadings and orders. Petition was pending with the Court as of December 31, 2011. In the Chavez case, respondents filed a Motion for Reconsideration which had not been resolved as of December 31, 2011.

4. Bataan Real Property Tax Cases

a. Petron vs. Emerlinda S. Talento
   CA GR SP No. 119649
   Court of Appeals, Manila
   Date Filed: January 7, 2008

b. Emerlinda Talento vs Hon. Remigio M. Escalada, Jr. and Petron
   G. R. No. 180884
   Supreme Court, Manila Third Division
   Date Filed: January 4, 2008

  Civil Case No. 8801
  RTC-Balanga, Bataan Br. 3
  Date Filed: October 8, 2007

Background: Petron had three (3) real property tax cases with the Province of Bataan arising from three (3) real property tax assessments. The first was for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of ₱86.4 million covering Petron’s isomerization and gas oil hydrotreater facilities which enjoy, among others, a five (5)-year real property tax exemption under the Oil Deregulation Law per the BOI Certificates of Registration of Petron. The second was for an assessment made also in 2006 by the Municipal Assessor of Limay for ₱17 million relating to the leased foreshore area on which the pier of the Refinery is located. In 2007, the Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of ₱2,168 million allegedly in delinquent real property taxes as of September 30, 2007, based on a third assessment made by the
Provincial Assessor covering a period of 13 years from 1994 to 2007. The third assessment cited Petron’s non-declaration or under-declaration of machineries and equipment in the Refinery for real property tax purposes and its failure to pay the corresponding taxes for the said period.

Status: Pursuant to a Compromise Agreement between the Provincial Government of Bataan and Petron dated April 15, 2011 which the Central Board of Assessment Appeals (CBAA) in its Joint Decision dated May 23, 2011 approved, Petron moved that its Appeal on the Decision of the RTC of Bataan in Civil Case No. 8801 be deemed withdrawn. The CA issued a Resolution granting the motion of the Province of Bataan to withdraw the case and consider the case closed and terminated.
PART II - SECURITIES OF THE REGISTRANT

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

(1) Market Information

Petron’s common shares are traded at the PSE. The high and low sales prices for each period are indicated in the table below:

<table>
<thead>
<tr>
<th>Period</th>
<th>Highest Close</th>
<th>Lowest Close</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price</td>
<td>Date</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Quarter</td>
<td>19.74</td>
<td>January 3, 2011</td>
</tr>
<tr>
<td>2nd Quarter</td>
<td>14.32</td>
<td>April 1, 2011</td>
</tr>
<tr>
<td>3rd Quarter</td>
<td>17.20</td>
<td>July 11, 2011</td>
</tr>
<tr>
<td>4th Quarter</td>
<td>14.98</td>
<td>October 12, 2011</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Quarter</td>
<td>6.20</td>
<td>March 30, 2010</td>
</tr>
<tr>
<td>2nd Quarter</td>
<td>6.80</td>
<td>May 14, 19, 26, 2010</td>
</tr>
<tr>
<td>3rd Quarter</td>
<td>7.10</td>
<td>September 27, 2010</td>
</tr>
<tr>
<td>4th Quarter</td>
<td>18.82</td>
<td>December 30, 2010</td>
</tr>
</tbody>
</table>

The total number of stockholders as of December 31, 2011 was 160,482. Price as of last trading day of the year, December 29, 2011, was ₱12.60 per share. In 2010, the total number of stockholders as of December 31, 2010 was 164,167. Price as of last trading day of the year, December 30, 2010, was ₱18.82 per share.

In 2009, the total number of stockholders as of December 31, 2009 was 176,131 and the stock price was ₱5.30 per share as of December 29, 2009.
(2) Holders

Top 20 Stockholders (COMMON)
As of December 31, 2011

<table>
<thead>
<tr>
<th>STOCKHOLDER NAME</th>
<th>NATIONALITY</th>
<th>TOTAL SHARES</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 SEA Refinery Corporation</td>
<td>Filipino</td>
<td>4,696,885,564</td>
<td>50.10%</td>
</tr>
<tr>
<td>2 Petron Corporation Employees Retirement Plan</td>
<td>Filipino</td>
<td>2,276,456,097</td>
<td>24.28%</td>
</tr>
<tr>
<td>3 San Miguel Corporation</td>
<td>Filipino</td>
<td>1,702,870,560</td>
<td>18.16%</td>
</tr>
<tr>
<td>4 PCD Nominee Corp. (Filipino)</td>
<td>Filipino</td>
<td>163,523,032</td>
<td>1.74%</td>
</tr>
<tr>
<td>5 PCD Nominee Corp. (Non-Filipino)</td>
<td>Foreign</td>
<td>31,805,038</td>
<td>0.33%</td>
</tr>
<tr>
<td>6 Ansaldo Godinez &amp; Co. Inc. FAO Mark V. Pangilinan</td>
<td>Filipino</td>
<td>8,000,000</td>
<td>0.09%</td>
</tr>
<tr>
<td>7 Ernesto Chua Chiaco &amp;/ir Margaret Sy Chua Chiaco</td>
<td>Filipino</td>
<td>7,780,000</td>
<td>0.08%</td>
</tr>
<tr>
<td>8 Ernesto Chua Chiaco</td>
<td>Filipino</td>
<td>7,550,000</td>
<td>0.08%</td>
</tr>
<tr>
<td>9 Raul Tomas Concepcion</td>
<td>Filipino</td>
<td>3,504,000</td>
<td>0.04%</td>
</tr>
<tr>
<td>10 Ernesto Chua Chiaco</td>
<td>Filipino</td>
<td>3,450,000</td>
<td>0.04%</td>
</tr>
<tr>
<td>11 Ching Hai Go &amp;/or Martina Go</td>
<td>Filipino</td>
<td>2,500,000</td>
<td>0.03%</td>
</tr>
<tr>
<td>12 Genevieve S. Chua Chiaco</td>
<td>Filipino</td>
<td>2,490,000</td>
<td>0.03%</td>
</tr>
<tr>
<td>13 Allied Banking Corporation</td>
<td>Filipino</td>
<td>2,145,000</td>
<td>0.02%</td>
</tr>
<tr>
<td>14 Shahrad Rahmaniard</td>
<td>Iranian</td>
<td>2,000,000</td>
<td>0.02%</td>
</tr>
<tr>
<td>15 Ernesson S. Chua Chiaco</td>
<td>Filipino</td>
<td>1,450,000</td>
<td>0.15%</td>
</tr>
<tr>
<td>16 South China Petroleum &amp; Exploration Inc.</td>
<td>Chinese</td>
<td>1,147,500</td>
<td>0.01%</td>
</tr>
<tr>
<td>17 Eric Ruben L Tan</td>
<td>Filipino</td>
<td>1,100,000</td>
<td>0.01%</td>
</tr>
<tr>
<td>18 Edwin Francis Lim Tan</td>
<td>Filipino</td>
<td>1,100,000</td>
<td>0.01%</td>
</tr>
<tr>
<td>19 United Realty Corporation</td>
<td>Filipino</td>
<td>1,000,000</td>
<td>0.01%</td>
</tr>
<tr>
<td>20 Allied Banking Corporation</td>
<td>Filipino</td>
<td>765,500</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

List of Top 20 Stockholders (PREFERRED)
As of December 31, 2011

<table>
<thead>
<tr>
<th>STOCKHOLDER NAME</th>
<th>NATIONALITY</th>
<th>TOTAL SHARES</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 PCD Nominee Corp. (Filipino)</td>
<td>Filipino</td>
<td>95,909,240</td>
<td>95.96%</td>
</tr>
<tr>
<td>2 Knights of Columbus Fraternal</td>
<td>Filipino</td>
<td>966,970</td>
<td>0.96%</td>
</tr>
<tr>
<td>Association of the Phils. Inc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 AFP Retirement and Separation</td>
<td>Filipino</td>
<td>500,000</td>
<td>0.50%</td>
</tr>
<tr>
<td>Benefits System</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 PCD Nominee Corp. (Non-Filipino)</td>
<td>Foreign</td>
<td>452,540</td>
<td>0.45%</td>
</tr>
<tr>
<td>Dominc Lim Sytin &amp;/or Ann</td>
<td></td>
<td>300,000</td>
<td>0.30%</td>
</tr>
<tr>
<td>Mariette Lim Sytin</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 HSY Realty &amp; Development Corp.</td>
<td>Filipino</td>
<td>150,000</td>
<td>0.15%</td>
</tr>
<tr>
<td>7 Manila Bankers Life Insurance Corp.</td>
<td>Filipino</td>
<td>122,500</td>
<td>0.12%</td>
</tr>
<tr>
<td>8 Caridad Say</td>
<td>Filipino</td>
<td>118,800</td>
<td>0.12%</td>
</tr>
<tr>
<td>9 Marilneth T. Ngo &amp;/or Jims T. Ngo</td>
<td>Filipino</td>
<td>110,000</td>
<td>0.11%</td>
</tr>
<tr>
<td>10 Securities Investors Protection Fund, Inc.</td>
<td>Filipino</td>
<td>110,000</td>
<td>0.11%</td>
</tr>
<tr>
<td>11 Ophelia L. Fernandez</td>
<td>Filipino</td>
<td>65,000</td>
<td>0.06%</td>
</tr>
<tr>
<td>12 Safeway Customs Brokerage, Inc.</td>
<td>Filipino</td>
<td>60,000</td>
<td>0.06%</td>
</tr>
<tr>
<td>13 Knights of Columbus Fr. George J.</td>
<td>Filipino</td>
<td>60,000</td>
<td>0.06%</td>
</tr>
<tr>
<td>Willman Charities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 Vichelli Churchill Say</td>
<td>Filipino</td>
<td>59,000</td>
<td>0.06%</td>
</tr>
<tr>
<td>15 Carmencita R. Gutierrez &amp;/or Girme L. Gutierrez</td>
<td>Filipino</td>
<td>51,000</td>
<td>0.05%</td>
</tr>
<tr>
<td>16 Reynaldo G. Alejandro</td>
<td>Filipino</td>
<td>50,000</td>
<td>0.05%</td>
</tr>
<tr>
<td>17 Armado Hun &amp;/or Mary Kathlyn Khong Hun</td>
<td>Filipino</td>
<td>50,000</td>
<td>0.05%</td>
</tr>
<tr>
<td>18 Elena Tan Lao</td>
<td>Filipino</td>
<td>50,000</td>
<td>0.05%</td>
</tr>
<tr>
<td>19 Sally Bayle &amp;/or Silvestre Bayle</td>
<td>Filipino</td>
<td>50,000</td>
<td>0.05%</td>
</tr>
<tr>
<td>20 Reynaldo R. Sarmenta &amp;/or Rosario G. Sarmenta</td>
<td>Filipino</td>
<td>50,000</td>
<td>0.05%</td>
</tr>
</tbody>
</table>
(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.

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

On February 2, 2011, the BOD declared a cash dividend of ₱2.382 per share which was paid to preferred stockholders on March 7, 2011. Another cash dividend of ₱2.382 per share was paid on June 6, 2011 to preferred shareholders as of May 26, 2011. Also, on July 12, 2011, the BOD approved a cash dividend of ₱2.382 per share which was paid to preferred stockholders on September 5, 2011. Finally, stockholders holding preferred shares as of November 16, 2011 were also paid a cash dividend of ₱2.382 per share on December 5, 2011 and another ₱2.382 per share which was paid on March 5, 2012.

For common shares, the BOD approved a cash dividend of ₱0.10 per share to stockholders as of May 26, 2011, which was paid on June 6, 2011.

On April 29, 2010, the BOD approved a cash dividend of ₱2.382 per share which was paid to preferred stockholders on June 7, 2010. Another cash dividend of ₱2.382 per share was paid on September 16, 2010 to preferred stockholders as of August 10, 2010 record date. Finally, stockholders holding preferred shares as of November 16, 2010 were also paid a cash dividend of ₱2.382 per share on December 6, 2010.

For common shares, the BOD approved a cash dividend of ₱0.10 per share to stockholders as of July 30, 2010, which was paid on August 16, 2010.

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

Under Republic Act No. 8799, known as the Securities Regulation Code (the Code), and its implementing rules, securities, such as the notes described below, are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are approved for registration by the SEC or are otherwise exempt securities under Section 9 of the Code or sold pursuant to an exempt transaction under Section 10 of the Code.

The notes below were offered in the Philippines to not more than 19 non-qualified buyers and to any number of qualified buyers as defined in the Code. The offer and sale of the notes described below qualified as an exempt transaction pursuant to Sections 10.1 (k) and 10.1(l) of the Code. A confirmation of exemption from the SEC that the offer and sale of such notes in the Philippines qualify as an exempt transaction under the Code was not required to be, and had not been, obtained. Nevertheless, in compliance with applicable regulations, a Notice of Exemption was filed, after the issuance of the notes described below.

The notes offered or sold below have not been registered with the SEC under the Code. Any future offer or sale thereof is subject to registration requirements under the Code, unless such offer or sale qualifies as an exempt transaction.
1. Fixed Rate Corporate Notes

   • Fixed Rate Corporate Notes in 2009
   a. In June 5, 2009, the Company issued five (5)- and seven (7)-year Fixed Rate Corporate Notes totaling P10 billion
      i. Series A Notes amounting to P5.2 billion and having a maturity of five (5) years from the Issue Date; and
      ii. Series B Notes amounting to P4.8 billion and having a maturity of seven (7) years from the Issue Date.
   b. Arrangers were BPI Capital, the Development Bank of the Philippines, The Hongkong and Shanghai Banking Corporation Limited and ING Bank NV Manila Branch. The notes were sold to primary institutional lenders not exceeding 19.
   c. Offered price was at 100%. Interest rates for the Series A Notes and Series B Notes are 8.1396% p.a. and 9.3292% p.a., respectively, payable semi-annually, commencing six (6) months from issue date.
   d. The Company did not seek written confirmation from the SEC that such issuances are exempt from registration.

   • Fixed Rate Corporate Notes in 2011
   a. In October 25, 2011, the Company issued Fixed Rate Corporate Notes totaling P3.6 billion, broken down as follows:
      i. Series A Notes amounting to P0.69 billion and having a maturity of seven (7) years from the Issue Date; and
      ii. Series B Notes amounting to P2.91 billion and having a maturity of 10 years from the Issue Date.
   b. Arranger was ING Bank NV Manila Branch. The notes were sold to primary institutional lenders not exceeding 19.
   c. Offered price was at 100%. Interest rates for the Series A Notes and Series B Notes are 6.3212% p.a. and 7.1827% p.a., respectively, payable semi-annually, commencing six (6) months from issue date.
   d. The Company did not seek written confirmation from the SEC that such issuances are exempt from registration.

2. P20 Billion 7.0% PHP-Denominated Notes Due 2017 Payable in U.S. Dollars

   a. In November 10, 2010, the Company issued the P20 Billion 7.0% PHP-Denominated Notes Due 2017 Payable in U.S. Dollars.
   b. Arrangers were Credit Suisse, Deutsche Bank, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank. The notes were sold to various investors.
   c. Offered price was at 100%. Interest rate is at 7.0% p.a., payable semi-annually, commencing six (6) months from issue date.
   d. The Company did not seek written confirmation from the SEC that such issuances are exempt from registration.

(B) Description of Petron’s Shares

Petron’s shares consist of common stock with a par value of P1.00 per share and preferred shares also with a par value of P1.00 per share. Common shares are voting shares while the preferred shares are generally non-voting except in cases provided by law. Petron has a total of 9,375,104,497 issued and outstanding common shares and 100,000,000 issued and outstanding preferred shares.
(C) **Stock Ownership Plan**

Currently, Petron does not have a stock ownership plan or program. In 1994, when Petron’s initial public offering was undertaken, a special secondary sale of Petron’s shares was offered to employees. Entitlement of shares at the listing price of P9.00 per share was made equivalent to the employee’s base pay factored by his/her service years with Petron. Petron’s Executive Officers, except the Chairman, the President and the Vice President for Corporate Planning, were entitled to own Petron shares under this Stock Ownership Plan.

Preparatory to the listing of the Company’s preferred shares, availment of said shares was offered to employees from February 15 to 19, 2011.
PART III - FINANCIAL INFORMATION

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

Financial Condition and Results of Operations

Results of Operations

2011 vs. 2010

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

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

In 2011, Petron posted a consolidated net income of P\textbf{8.48 billion}, 7% or P560 million more than the P\textbf{7.92 billion} earnings reported in 2010 due to better margins trimmed down by higher operating and financial expenses. The increase in gross margin was due to the recovery in product cracks in the region during the period.

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

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

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

Selling & Administrative Expenses (OPEX) increased by 14% to P\textbf{8.30 billion} from the P\textbf{7.30 billion} level in 2010. Aggressive promotional activities, depreciation and lot rental of additional service stations, higher retirement expense and increased purchases of LPG cylinders contributed to the hike in OPEX. Consequently, OPEX per liter rose by 18% or P\textbf{0.17} from P\textbf{0.95} last year to P\textbf{1.12} in 2011.
Net Financing Costs & Other Charges increased significantly to ₱3.71 billion from the ₱2.21 billion level reported last year. The rise in financing costs was due to higher interest expense with higher borrowing level and rate during the year aggravated by net commodity hedging loss this year against net exchange gain in the previous year.

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

2010 vs. 2009

Sales volume went up to 48.29 MMB from last year’s 44.22MMB. The year 2010 saw a 73% surge in petrochemical sales volume as it marked the first full year of operations in the company’s Benzene, Toluene and Mixed Xylene (BTX) unit which was commissioned in April 2009. Petrochemical sales hit 3.3 million barrels in 2010 compared to 1.9 million barrels the previous year. On the back of higher petrochemical sales, the Company’s total export volumes increased by 48% to 5.2 million barrels in 2010 versus 3.5 million barrels in 2009. Domestic sales volumes, meanwhile, increased by nearly 6% to 43.1 million barrels in 2010 from 40.7 million barrels a year before attributed to increased economic activity, aggressive solicitation of new accounts and expansion of its service station network.

Petron ended 2010 with a consolidated net income of ₱7.92 billion, ₱3.67 billion higher than the ₱4.26 billion earnings reported in 2009. The growth in profit was attributed largely to the substantial increase in export sales and higher non-operating income.

Net sales revenue for the year reached ₱229.09 billion, 30% better than the ₱176.53 billion level a year earlier, chiefly due to higher average selling price per liter (2010: ₱29.18 vs. 2009: ₱24.52) as regional MOPS prices perked up to an average of US$82.73/bbl from US$64.98/bbl last year. Higher price was complemented by increase in volume.

Similarly, Cost of Goods Sold (CGS) went up by 30% or ₱47.70 billion from previous year’s ₱161.58 billion to ₱209.28 billion level. The increase was prompted by higher FOB of crude that went into cost (2010: US$77.57/bbl vs. 2009: US$62.34/bbl), along with the escalation in volume.

Refinery Operating Expenses that formed part of CGS totaled ₱4.98 billion, 4% lower than the total expenses incurred in 2009. The positive variance was brought about by lower maintenance and repairs (M&R) and depreciation. A substantial part of M&R in 2009 was related to the restoration of facilities damaged by fire in November 2008 plus turnaround activities of some units. Meanwhile, some units were already fully depreciated at the start of 2010, hence, the drop in depreciation expense.

Selling & Administrative Expenses (OPEX) summed up to ₱7.30 billion, 27% higher than the ₱5.75 billion level in 2009. Higher provision for bad debts, additional leases for new service stations, and increased purchases of LPG cylinders were the principal contributors for the rise in OPEX. Despite the increase in sales volume, OPEX per liter rose by 16% or ₱0.13 from ₱0.82 last year to ₱0.95 in 2010.

Net Financing Costs & Other Charges dropped significantly to ₱2.21 billion from the ₱3.45 billion level reported last year. Better financing cost was due to higher interest income coupled with foreign exchange translation gains on dollar-denominated transactions.

With the significant improvement in income, Income tax expense rose to ₱2.38 billion from the ₱1.49 billion level in 2009.

Earnings per share increased by 71% to ₱0.77, from ₱0.45 last year.
Financial Condition

2011

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

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

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

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

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

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

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

Investment in associates rose to ₱2.50 billion from ₱0.80 billion with the additional investment in Limay Energen Corporation (LEC) and the purchase of 35% interest in Manila North Harbour Port, Inc.

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

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

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

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

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

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

Income tax payable ballooned to ₱78 million from ₱14 million of previous year as a result of higher taxable income during the twelve-month period.
Long-term debt inclusive of current portion fell by 8% from ₱54.40 billion to ₱49.87 billion with the settlement of matured obligation.

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

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

Asset retirement obligation went up by 30% (₱246 million) from ₱0.82 billion to ₱1.06 billion influenced mainly by higher estimated dismantling costs and accretion rate.

Other non-current liabilities increased by ₱131 million to ₱740 million with the increase in cylinder deposits and cash bonds.

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

2010

Petron closed 2010 with total resources of ₱161.82 billion, 44% or ₱49.08 billion higher than end-December 2009 level of ₱112.74 billion due mainly to the increase in cash and cash equivalents.

From ₱12.99 billion in 2009, cash and cash equivalents rose to ₱43.98 billion in 2010 principally due to the proceeds from loan availments and issuances of bonds and preferred shares.

Financial assets at fair value through profit or loss grew by 9% from ₱208 million at the close of the year in 2009 to ₱227 million for the same period in 2010 due mainly to the improvement in the marked-to-market value of marketable securities and club membership shares.

Available-for-sale financial assets (current and non-current) declined by 14% from ₱1.36 billion in December 2009 to ₱1.16 billion in December 2010 on account of the maturity of investment in government securities of the local insurance subsidiary.

Trade and Other Receivables-net amounted to ₱24.27 billion, 18% or ₱5.43 billion lower than the ₱29.70 billion level as of December 31, 2009 mainly due to the drop in government receivables as a result of significant utilization of tax credit certificates.

Assets held for sale of ₱823 million consisted of office units for sale. This was classified as property, plant and equipment and investment properties in 2009.

Investment in associates stood at ₱804 million in 2010. This comprised of the Company’s equity in Petrochemical Asia Hongkong Limited (PAHL) and LEC.

Investment Properties-net of ₱119 million in December 2010 was 49% below the ₱232 million figure reported in December 2009 chiefly due to the reclassification of the book value of Petron Megaplaza Offices to assets held for sale.

Deferred tax assets-net went up to ₱28 million from the end-December 2009 balance of ₱7 million due mainly to the effect of translation adjustment of the foreign insurance subsidiary.

Other non-current assets-net were considerably higher at ₱23.02 billion in 2010 from ₱0.88 billion in year-end 2009 primarily traced to advances to the retirement fund.
Short-term loans and liabilities for crude oil and petroleum product importations went down by 13% (P6.62 billion) to P43.65 billion as at December 2010 principally due to settlements made partly countered by higher crude importations.

Trade and other Payables grew by 37% (P1.83 billion) to P6.74 billion on account of higher liabilities to contractors and suppliers for the Company’s capital projects.

Derivative Liabilities increased significantly from P1 million to P30 million level mainly due to marked-to-market loss on outstanding embedded derivatives.

Income tax payable increased to P14 million from P10 million as at December 31, 2009 owing to higher tax liabilities reported by the subsidiaries.

Long-term debt inclusive of current portion showed a significant movement from P18.89 billion to P54.40 billion due to the newly-availed NORD loan amounting to US$355 million and proceeds from issuance of bonds equivalent to P20.00 billion partly reduced by amortizations of outstanding loans.

Retirement benefits liability of P249 million at the end of 2010 was five times higher the previous year’s amount of P50 million as the increase in benefits paid during the year resulted in lower value of Retirement Plan’s assets.

Deferred tax liabilities-net grew considerably from P364 million to P1.96 billion largely due to the impact of NOLCO as well as temporary differences reflected under parent and subsidiaries’ accounts.

Asset Retirement Obligation escalated to P815 million in December 2010 from P541 million the year earlier mainly due to higher estimated dismantling cost.

Other non-current liabilities rose by 19% or P98 million from P511 million to P609 million mainly due to the increases in cylinder deposits and cash bond.

Total equity attributable to equity holders of the parent company aggregated P53.07 billion at the end of December 2010, showing a 44% or P16.13 billion improvement over the end-December 2009 level due to the combined effect of the following:

- P9.86 billion issuance of preferred shares, net of issue cost
- P7.92 billion full year net income partly reduced by the P1.65 billion dividends on common and preferred shares.

Other reserves increased by 41% to P83 million from P59 million due to translation adjustment of the Company’s foreign subsidiary.

Cash Flows

2011

Operating activities yielded a net cash inflow of P0.79 billion, significantly lower compared with the P17.45 billion level the previous year as improved EBITDA was offset by the increase in working capital requirements specifically inventories and receivables. This was supplemented by funds sourced from the availment of long-term loans. Cash balance as at end of 2011 stood at P23.82 billion.
2010

With a stronger EBITDA and lower working capital, net cash inflows from operating activities increased significantly to ₱17.45 billion from ₱4.65 billion a year earlier. Internally generated funds were augmented by the availment of long-term loans and the issuances of bonds and preferred shares.

Funds available from proceeds of loans and preferred shares were used to pay-off partly the Company’s short-term debts and fund its capital programs.

The Company ended the year 2010 with a cash balance of ₱43.98 billion.

Top Five (5) Key Performance Indicators

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Dec-11</th>
<th>Dec-10</th>
<th>Dec-09</th>
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<tr>
<td>Current Ratio</td>
<td>1.5</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Debt Equity Ratio</td>
<td>1.9</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Return on Equity (%)</td>
<td>15.0</td>
<td>17.4</td>
<td>12.1</td>
</tr>
<tr>
<td>Debt Service Coverage</td>
<td>3.1</td>
<td>4.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Interest Coverage Ratio</td>
<td>3.6</td>
<td>3.7</td>
<td>3.2</td>
</tr>
<tr>
<td>Tangible Net worth</td>
<td>₱ 59.7B</td>
<td>₱ 53.3B</td>
<td>₱ 32.2B</td>
</tr>
</tbody>
</table>

**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.

**Interest Coverage Ratio** - EBITDA divided by Interest Expense and Other financing charges.
This ratio is used to assess the company’s financial stability by examining whether it is at least profitable enough to pay off its interest expenses. A ratio greater than 1 indicates that the company has more than enough interest coverage to pay off its interest expenses.
Total Assets to Equity Ratio - Total assets divided by total equity.
This ratio is the standard formula used to ascertain the overall financial stability of a company. In essence, the function of the asset/equity ratios is to determine the value of the total assets of the company, less any portion of the assets that are owned by the shareholders of the corporation.

Tangible Net Worth - Net worth minus intangible assets.
This figure gives a more immediately realizable value of the company.

Business Condition

- **Philippine GDP in 2011 slowed down.** After a robust GDP growth of 7.6% in 2010, the economy slowed down and expanded by only 3.7% in 2011 due to: 1. base effect with high 2010 growth supported by strong election spending; 2. government underspending and delayed implementation of Public and Private Partnership program for infrastructure; and 3. lower exports with weak international demand as developed economies struggle with high debts, weak employment and slow growth.

- **Services sector continued to be robust.** The services sector sustained its strength although growing by a slower pace of 5% in 2011. On the other hand, the agricultural sector rebounded and expanded by 2.6% after its subsequent declines in the past two (2) years. Meanwhile, the Industry sector expanded by only 1.9% as the expansion in the Manufacturing (4.7%) and Mining & Quarrying (4.1%) was offset by the decline in the Construction (-6.4%) and Electricity, Gas and Water (-2.8%) sectors.

- **Interest rates were kept at low levels during the year** making borrowing costs cheaper. The 3-month PDST-F averaged 2.0% in 2011 from 3.8% and 91-day T-Bill averaged 1.5% from 3.7% in 2010 due to sufficient liquidity in the domestic financial markets.

- **Inflation increased to 4.8% in 2011.** Although higher compared to 2010’s 3.8% average, the rise in prices has been manageable and stayed within the government’s targets.

- **Peso remained strong in 2011.** The peso sustained its strength averaging P43.3/$ from P45.1/$ in 2010 supported by continuous growth of remittances from overseas Filipino workers. Strong peso makes import costs cheaper and the value of country’s foreign debts lower.

- **Oil prices continued to rise in 2011.** Fears of supply tightness due to geopolitical tensions in oil-exporting countries have caused the price of oil to go up. Uprisings against the government in some Middle East and North African countries caused some disruption in oil supply during the year. Moreover, European Union’s imposition of an oil embargo against Iran as sanction for its heightened nuclear program further tightened oil supply, pushing oil prices higher. In 2011, Dubai averaged $106.3/bbl, 36% higher than $78.1/bbl in 2010.

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

Tax Credit Certificates-Related Matters

In 1998, the BIR issued a deficiency excise tax assessment against Petron. The assessment relates to Petron’s use of P659 million worth of TCCs to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR’s assessment before the CTA. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the CA where the case was still pending as of December 31, 2011. The CA 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 remained unresolved as of December 31, 2011. Petron also filed a Motion for Re-raffle requesting the re-raffle of the case and its immediate resolution.

In May 2002, the BIR issued a P254 million assessment against Petron for deficiency excise taxes for the years 1995 to 1998. The assessment results from the cancellation by the DOF of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. On May 4, 2007, the CTA second division denied Petron’s petition, ordering Petron to pay the BIR P601 million representing Petron’s P254 million unpaid deficiency excise taxes for the taxable years 1995 to 1998 and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA en banc, which ruled in favor of Petron, reversing the unfavorable decision of the CTA second division. The BIR contested the CTA en banc decision before the Supreme Court where the case was still pending as of December 31, 2011.

There are duplications in the TCCs subject of the assessments described above. Excluding these duplications, the aggregate deficiency excise taxes, excluding interest and penalties, resulting from the cancellation of the subject TCCs amount to P910.7 million.

**Pandacan Terminal Operations**

In November 2001, the City of Manila enacted City Ordinance No. 8027 reclassifying the areas occupied by the oil terminals of Petron, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, Petron, together with Shell and Chevron, entered into a Memorandum of Understanding (MOU) with the City of Manila and the DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, SJS filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance No. 8027. In April 2003, Petron filed a petition with the Regional Trial Court (RTC) to annul Ordinance No. 8027 and enjoin its implementation. On the basis of a status quo order issued by the RTC, Mayor of Manila ceased implementation of Ordinance No. 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance No. 8119), which applied to the entire City of Manila. Ordinance No. 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance No. 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance No. 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision, on the ground that the Supreme Court failed to consider supervening events, notably (i) the passage of Ordinance No. 8119 which superseded Ordinance No. 8027, as well as (ii) the RTC orders preventing the implementation of Ordinance No. 8027. Petron, Shell, and Chevron also noted the possible ill-effects on the entire country arising from the sudden closure of the oil terminals in Pandacan.

On February 13, 2008, the Supreme Court resolved to allow Petron, Shell and Chevron to intervene, but denied their motion for reconsideration. In its February 13 resolution (February 13 Resolution), the Supreme Court also declared Ordinance No. 8027 valid, dissolved all existing injunctions against the implementation of the Ordinance No. 8027, and directed Petron, Shell and Chevron to submit their relocation plans to the RTC. Petron, Shell and Chevron have sought reconsideration of the February 13 Resolution. In compliance with the February 13 Resolution, Petron, Shell and Chevron have submitted their comprehensive relocation plans to the RTC.
In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187, which repealed Ordinance No. 8027 and Ordinance No. 8119, and permitted the continued operations of the oil terminals in Pandacan.

In June 2009, petitions were filed with the Supreme Court, seeking the nullification of Ordinance No. 8187 and enjoining its implementation. These petitions were still pending as of December 31, 2011.

Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, capsized 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the SBMI, both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, who are charterers.

In 2009, complaints for violation of the Clean Water Act and Homicide and Less Serious Physical Injuries were filed against Petron. Respondents claim that their exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill had caused them major health problems. In July 2011, the Provincial Prosecutor’s Office of Guimaras issued a Joint Resolution finding probable cause to indict the owner and the Captain of MT Solar I and Messrs. Khalid Al-Faddagh and Nicasio Alcantara for violation of the Clean Water Act. Messrs. Al-Faddagh and Alcantara filed their Motion for Reconsideration which was still pending as of December 31, 2011.

Another complaint for non-payment of compensation for the clean-up operations during the oil spill was filed on August 6, 2009 by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims for both cases amount to P291.9 million.

Bataan Real Property Tax Cases

Petron had three (3) pending real property tax cases with the Province of Bataan, arising from three (3) real property tax assessments. The first was for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of P86.4 million covering Petron’s isomerization and gas oil hydrotreater facilities which enjoy, among others, a five (5)-year real property tax exemption under the Oil Deregulation Law per the BOI Certificates of Registration of Petron. The second was for an assessment made also in 2006 by the Municipal Assessor of Limay for P17 million relating to the leased foreshore area on which the pier of Petron’s Refinery is located. In 2007, the Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring Petron to settle the amount of P2,168 million allegedly in delinquent real property taxes as of September 30, 2007, based on a third assessment made by the Provincial Assessor covering a period of 13 years from 1994 to 2007. The third assessment cited Petron’s non-declaration or under-declaration of machineries and equipment in the Refinery for real property tax purposes and its failure to pay the corresponding taxes for the said period.

Pursuant to a Compromise Agreement between the Provincial Government of Bataan and Petron dated April 15, 2011 which the CBAA in its Joint Decision dated May 23, 2011 approved, Petron moved that its Appeal on the Decision of the RTC of Bataan in Civil Case No. 8801 be deemed withdrawn. The Court of Appeals issued a Resolution granting the motion of the Province of Bataan to withdraw the case and consider the case closed and terminated.
Any significant elements of income or loss (from continuing operations)
There are no significant elements of income or loss from continuing operations.

Seasonal aspects that has material effect on the FS
There are no seasonal items that have material effect on the financial statement.
All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

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

Financial Statements
The 2011 Audited Financial Statements of Petron and its subsidiaries and the Statement of Management Responsibility are attached hereto as Annex “A”, with the Supplementary Schedules as Annex “B”.

Audit and Audit-Related Fees
For the annual review of the financial statements, consultancy services and other related services, the Company paid its external auditor (KPMG Manabat Sanagusting & Co.) the amount of P9.3 million in 2010 and P16.1 million in 2011 (exclusive of VAT and out of pocket expenses).
After the 3-year contract with the previous/outgoing external auditor, for 2010 financial statements, it was recommended that the Company appoint the existing independent auditor of San Miguel Corporation, having exercised its full ownership option. With a common external auditor, this facilitated the consolidation of results of operations and account balances among its subsidiaries using a uniform audit approach among subsidiaries.
The Audit Committee affirmed to endorse for the Board’s approval the appointment of KPMG as the Company’s external auditor for 2010 to 2012. The Board of Directors, finding the recommendation to be in order, in turn endorsed the appointment of the independent external auditor for information of the stockholders during its annual meeting.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
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<tr>
<td>a. Audit fees for professional services - Annual Financial Statement</td>
<td>5,500,000.00</td>
<td>4,125,000.00</td>
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<tr>
<td>b. Professional fees for due diligence and study on various internal projects</td>
<td>8,032,695.00</td>
<td>5,175,000.00</td>
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<tr>
<td>c. Professional fees for tax consulting services</td>
<td>2,530,000.00</td>
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<tr>
<td></td>
<td>16,062,695.00</td>
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AUDIT COMMITTEE REPORT

The Board of Directors
Petron Corporation

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

In the performance of our responsibilities, we report that in 2011:

- We reviewed and discussed with Controllers management the quarterly and annual financial statements of Petron Corporation and Subsidiaries and endorsed these for approval by the Board;
- We endorsed the re-appointment of Manabat Sanagustin/KPMG as the company's independent auditors for 2011;
- We reviewed with Manabat Sanagustin/KPMG the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements;
- We reviewed with Manabat Sanagustin/KPMG, the audit observations and recommendations on the Company's internal controls and management's response to the issues raised;
- We reviewed with the Internal Audit Head and approved the annual internal audit plan and satisfied itself as to the independence of the internal audit function, and
- We reviewed on a quarterly basis Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period.

The Audit Committee is satisfied with the scope and appropriateness of the Committee’s mandate and that the Committee substantially met its mandate in 2011.

Reynaldo G. David
Chairperson
Independent Director

Estelito P. Mendoza
Director

Artemio V. Panganiban
Director

Aurora T. Calderon
Director

Ferdinand K. Constantino
Director
Material Commitments for Capital Expenditure

The Company funded a total of ₱24.0 billion, ₱23.4 billion for major projects and ₱0.6 billion for miscellaneous projects in 2011 through cash generated from the Company’s operations and proceeds from borrowings. Major capital projects include:

Service station projects and LPG distribution facility. ₱3.7 billion was allotted for the expansion of the service station network to augment market share and the installation of the LPG supply/distribution facility.

Refinery investments. A total of ₱18.2 billion was used for refinery projects such as the RMP-2, power plant, and other efficiency- and maintenance-related projects.

Logistical projects. ₱1.4 billion was funded for logistical projects that would improve cost efficiencies and revenue generation. These include additional equipment and tanks, expansion of existing facilities and safety-related projects.

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

There are no changes in and disagreements with Accountants on Accounting and Financial Disclosure.
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 and until December 31, 2011.

Directors

Ramon S. Ang, Filipino, 58 years old, is the Chairman, Chief Executive Officer and Executive Director of Petron. He is the Chairman of the Board Executive Committee and Compensation Committee. He is also the Chairman of Las Lucas Construction and Development Corporation, New Ventures Realty Corporation, Petron Freeport Corporation, and Sea Refinery Corporation; and Chairman & CEO of Petron Marketing Corporation; Chairman & President of Mariveles Landco Corporation, Petrochemicals Asia (HK) Ltd., Philippine Polypropylene Inc. and Robinson International Holdings Ltd. He has been the Vice Chairman of San Miguel Corporation since January 1999 and President & Chief Operating Officer since March 2002; and Vice Chairman of Manila Electric Company since February 2009. Other current positions include: Chairman of San Miguel Brewery Inc., San Miguel Foods, Inc., The Purefoods-Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, South Luzon Tollway Corporation, Eastern Telecommunications Philippines, Inc., Liberty Telecoms Holdings, Inc. and Philippine Diamond Hotel & Resort Inc.; Vice Chairman of Ginebra San Miguel, Inc. and San Miguel Pure Foods Company, Inc.; Chairman & President of San Miguel Properties, Inc., Bell Telecommunication Philippines, Inc., Atea Tierra Corporation, Cyber Bay Corporation and Philippine Oriental Realty Development Inc.; Chairman & CEO of SMC Global Power Holdings Corp.; Director of other subsidiaries and affiliates of the San Miguel Group of Companies in the Philippines and the Southeast Asia Region; and 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, 48 years old, is the President/Executive Director of the Company. 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.; Chairman of Petrogen Insurance Corporation and Overseas Ventures Insurance Corporation (Bermuda); and a Director of Petron Marketing Corporation. He is currently a Member of the Board of Directors of San Miguel Corporation and the Manila Electric Company. He is also the Vice Chairman of Philweb Corporation, Atok-Big Wedge Corporation, Alphaland Corporation and Philippine Bank of Communications. Mr. Recto is also the President of ISM Communications Corporation, Top Frontier Investment Holdings Inc., and Q-Tech Alliance Holdings, Inc. He was previously the Undersecretary of the Department of Finance, in charge of both the International Finance Group and the Privatization Office (2002-2005). Before his work with the government, he was the Senior Vice President and Chief Financial Officer of Alaska Milk Corporation (2000-2002) and Belle Corporation (1994-2000). He was also a Vice-President in Bankers Trust Company for four years after graduate school. 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.

Eduardo M. Cojuangco, Jr., Filipino, 76 years old, is a non-executive Director of Petron. 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 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
Estelito P. Mendoza, Filipino, 82 years old, is a non-executive Director of the Company and a member of the Nomination and Audit Committees. He heads the law firm Estelito P. Mendoza and Associates and holds directorships in San Miguel Corporation, the Manila Electric Company, Philippine National Bank, and Philippine Airlines Inc. He also 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). He has also been a Professorial Lecturer of law at the University of the Philippines. He was also the Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He is known both here and abroad, consistently being listed as one of the “Leading Individual in Dispute Resolution” in the Philippines by the “Asia Legal 500”, “Chambers of Asia” and “Which Lawyer?” yearbooks. Mr. Mendoza took his pre-law course and Bachelor of Laws degree at the University of the Philippines. He also holds a Master of Laws degree from the Harvard Law School.

Roberto Ongpin, Filipino, 75 yrs. old, has been a non-executive Director of the Company since July 2008. He is currently the Chairman of the following listed corporations: Philweb Corporation, ISM Communications Corporation, Alphaland Corporation, Atok-Big Wedge Co., Inc., Philippine Bank of Communications and is a Director of San Miguel Corporation, Ginebra San Miguel, Inc. and Petron Corporation. In Hong Kong, he is non-executive Director of Shangri-la Asia Limited (Hong Kong) and Deputy Chairman of South China Morning Post (Hong Kong), both listed on the Hong Kong Stock Exchange. He is also the Chairman of Acentic GmbH (Germany) and also Non-Executive Director of Forum Energy plc (London). 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, cum laude, from the Ateneo de Manila University. He is a Certified Public Accountant and has an MBA from the Harvard Business School.

Bernardino R. Abes, Filipino, 81 years old, has been a non-executive Director of the Company since July 2001. He is the former Chairman of the Government Service Insurance System and the Social Security Commission; and former Director of the Manila Electric Company, Philippine Stock Exchange, Union Bank of the Philippines, and Clark Development Corporation. He was the Presidential Adviser on Legislative Affairs and Head, Presidential Legislative Liaison Office in 2001. Other positions include: Consultant for the Philippine Senate (1992-1993), Director of the Bureau of Labor Relations (1957-1961), Secretary of Labor (1962-1964), Administrator and concurrently Chairman of the Social Security System (1963-1965). He graduated from the University of Santo Tomas with a Bachelor of Laws degree.

Aurora T. Calderon, Filipino, 57 years old, is a non-executive Director of the Company and is a member of the Compensation and Audit Committees. She is also an alternate member of the Executive Committee of the Company. She has held the positions of Senior Vice President and Senior Executive Assistant to the President and COO of San Miguel Corporation since January 20, 2011, and was previously a consultant of San Miguel Corporation reporting directly to the President and COO from 1998. She holds directorships in Petron Marketing Corporation, Petron Freeport Corporation, SEA Refinery Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corporation, Thai San Miguel Liquor Co., SMC Global Power Holdings Corp., Rapid Thoroughfares Inc., Trans Aire Development Holdings Corp., Vega Telecom, Inc., Bell Telecommunications Company, Inc., A.G.N. Philippines, Inc., and various subsidiaries of San Miguel Corporation. She is the Treasurer of Top Frontier Investment Holdings Inc. She was a former director of the Manila Electric Company (January 2009-May 2009), Senior Vice President of Guoco Holdings (1994-1998), Chief Financial Officer and
Assistant to the President of PICOP Resources (1990-1998) and Assistant to the President and Strategic Planning at the Elizalde Group (1981-1989). A Certified Public Accountant, she graduated magna cum laude from the University of the East in 1973 with a degree in Business Administration, major in Accounting, and earned her Masters degree in Business Administration from the Ateneo de Manila University in 1980. She is a member of the Financial Executives and the Philippine Institute of Certified Public Accountants.

Mirzan Mahathir, Malaysian, 52 years old, is a non-executive Director of the Company. Mirzan Mahathir is the Chairman and CEO of Crescent Capital Sdn Bhd, a Malaysian investment holding and independent strategic and financial advisory firm which he founded. He graduated with a Bachelor of Science (Honours) degree in Computer Science from Brighton Polytechnic, United Kingdom and obtained his Masters in Business Administration from the Wharton Business School, University of Pennsylvania, USA. He worked for IBM and Salomon Brothers before striking out on his own. His core experience and skills include strategic management, investment banking and logistics. Currently, Mirzan holds directorships in several public companies in South East Asia and USA. He also serves as President of the Asian Strategy & Leadership Institute, Chairman of several charitable foundations, a member of the Wharton Business School Asian Executive Board and the Business Advisory Council of United Nations Economic and Social Commission for Asia and the Pacific.

Romela M. Bengzon, Filipino, 50 years old, is a non-executive Director of the Company. She is a Director of Petron Marketing Corporation and the Managing Partner of the Bengzon Law Firm. Apart from her law practice, she is also a professor at the De La Salle University Graduate School of Business, Far Eastern University Institute of Law MBA-JD Program and the Ateneo Graduate School of Business and Regis University. She has been employed at various law firms and private corporations in the Philippines and abroad, having been admitted to both the Philippine and New York State bars in 1986 and 1994, respectively. She served the Philippine Government under the Department of Trade and Industry as one of the Philippine Government’s Honorary Trade Ambassadors to the European Union and was the Chairperson of the Committee on Economic Liberalization and Deputy Secretary General of the Consultative Commission, both under the Office of the President. She is presently a member of the Integrated Bar of the Philippines, the American Bar Association, the International Bar Association, the New York State Attorney and the Australian-New Zealand Chamber of Commerce. A Political Science graduate of the University of the Philippines in 1980 (with honors), she obtained her Bachelor of Laws from the Ateneo de Manila University in 1985.

Ferdinand K. Constantino, Filipino, 60 years old, is a non-executive Director of the Company. He has also been a Director of San Miguel Corporation since 2010 and the Senior Vice President/Chief Finance Officer and Treasurer of San Miguel Corporation since 2001. He holds several directorships in San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, Magnolia Inc., and SMC Global Power Holdings Corp., and is the President of Anchor Insurance Brokerage Corporation. Past positions include: concurrent Chief Finance Officer of San Miguel Brewery Inc., (2007-March 2009) and San Miguel Beer Division (1999-2005); Comptroller of San Miguel Corporation (1997-1999); Finance Director of San Miguel Brewing Group (1994-1997); and Chief Finance Officer of Manila Electric Company (2009). He has held directorships in various subsidiaries of San Miguel Corporation, local and offshore, during the last five (5) years. He holds a Bachelor of Arts degree in Economics from the University of the Philippines (1972) and took graduate courses in Economics (1972-1973) and Business (1977-1978) from the same university. He joined San Miguel Corporation in 1974.

Virgilio S. Jacinto, Filipino, 55 years old, has been a non-executive Director of the Company since December 2010. He is the Corporate Secretary, Compliance Officer, Senior Vice-President and General Counsel of San Miguel Corporation. He is also a director of San Miguel Brewery Inc. and SMC Global Power Holdings Corp. and Corporate Secretary of Ginebra San Miguel, Inc., Top Frontier Investment Holdings Inc., and other subsidiaries and affiliates of San Miguel Corporation. He was formerly the Vice-President and First Deputy General Counsel of SMC from 2006 to 2010 and was appointed as Deputy General Counsel of SMC in 2005. He was a Director and the Corporate Secretary of United Coconut Planters Bank, a partner at Villareal Law Offices, and an associate at SyCip, Salazar, Feliciano
& Hernandez Law Office. Mr. Jacinto is an Associate Professor of Law at the University of the Philippines. He obtained his law degree from the University of the Philippines (cum laude) where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds Master of Laws degree from Harvard University. He holds various directorships in various local and offshore subsidiaries of San Miguel Corporation.

**Ron W. Haddock**, American, 70 years old, is a non-executive Director of the Company. He is an alternate member of the Executive Committee. He sits as Chairman and CEO of AEI Services, L.L.C., which he has occupied since September 2006. His other current positions include Chairman of Safety-Kleen Systems, Inc. and Rubicon Offshore International; and Board member of Alon Energy USA and Trinity Industries, Inc. He is the Chairman of the governance committees for Safety-Kleen and AEI Services, LLC. Previously, he was the Chairman and CEO of Prisma Energy International and FINA. He started his career with Exxon in 1963 where he progressed through various management positions including manager of the Baytown Refinery, Corporate Planning Manager for Exxon U.S.A., Vice President of Refining and 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 Purdue University.

**Nelly Favis-Villafuerte**, Filipino, 55 years old, has been a non-executive Director of the Company since December 2011. She is a columnist for the Manila Bulletin and was a former member of Monetary Board of the Bangko Sentral ng Pilipinas from 2005 until July 2011. Prior to that, Atty. Favis-Villafuerte served as Governor of the Board of Investments from 1998 until 2005, concurrently serving as Undersecretary for the International Sector (Trade Promotion and Marketing Group) of the Department of Trade and Industry (DTI) from July 1998 until May 2000, then as Undersecretary for the Regional Operations Group of the DTI from May 2000 until 2005. Atty. Favis-Villafuerte holds a Masters Degree in Business Management from the Asian Institute of Management (AIM) and was a professor of international law/trade/marketing at the graduate schools of AIM, Ateneo Graduate School of Business and De La Salle Graduate School of Business and Economics. She holds a Bachelor of Laws (being one of the top ten when she took the Bar that time) and an Associate in Arts from the University of the Philippines. She is an author of business handbooks on Microfinance, Credit Card Transactions, Exporting and Cyberspace. She is currently coming out with a 4-volume series on the Laws on Banking and Financial Intermediaries (Philippines).

**Reynaldo G. David**, Filipino, 68 years old, is an Independent Director. He is currently the Chairman of the Audit and Nomination Committees and a member of the Compensation Committee. Previously, he was the President & Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. Other past positions include: Chairman of LGU Guarantee Corporation; Vice Chairman/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); Director of Megalink Inc.; Vice President and FX Manager of the Bank of Hawaii (April 1984-August 1986); and various directorships and/or executive positions with The Pratt Group (September 1986-December 1992), a major industrial Australian firm based in Hong Kong; 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 was also awarded by the Association of Development Financing Institutions in Asia & the Pacific as the Outstanding Chief Executive Officer in 2007. A Certified Public Accountant since 1964, he graduated from the De La Salle University with a Liberal Arts degree in Commerce in 1963 and has attended the Advance Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, honoris causa, by the Palawan State University in 2005.
Retired Chief Justice Artemio V. Panganiban, Filipino, 75 years old, is an Independent Director of the Company and member of the Audit Committee. He also sits as Independent Director of the following listed companies: Manila Electric Company; Bank of PI; First Philippine Holdings Corp.; Metro Pacific Investment Corp.; Metro Pacific Tollways Corp.; Robinsons Land Corp.; GMA Network; GMA Holdings; and Asian Terminals, Inc. He is a columnist for the Philippine Daily Inquirer and is an adviser/consultant in several business, civic, and religious organizations. He was formerly the Chief Justice of the Supreme Court of the Philippines. Prior to that, he was an Associate Justice of the Supreme Court from 1995-2005; Chairperson of the House of Representatives’ Electoral Tribunal (2004-2005); Senior Partner of Panganiban Benitez Parlade Africa & Barinaga Law Office (1963-1995); President of Baron Travel Corporation (1967-1993); and professor of the Far Eastern University, Assumption Convent and San Sebastian College (1961-1970), among other positions he assumed in both public and private sectors. He is an author of several books and has received various awards for his numerous accomplishments, most notably the “Renaissance Jurist of the 21st Century” conferred by the Supreme Court in 2006, and the “Outstanding Manilan” for 1991 by the City of Manila. He earned his Bachelor of Laws degree, cum laude, from the Far Eastern University in 1960 and placed 6th in the bar exam that same year.

The Board is composed of the Executive, Compensation, Audit, and Nomination Committees. Their composition is as follows:

**Executive Committee**
Ramon S. Ang - Chairman
Eric O. Recto
Roberto V. Ongpin

**Compensation Committee**
Ramon S. Ang - Chairman (Non-voting)
Eric O. Recto
Roberto V. Ongpin
Aurora T. Calderon
Reynaldo G. David

**Audit Committee**
Reynaldo G. David - Chairman
Estelito P. Mendoza
Ferdinand K. Constantino
Aurora T. Calderon
Artemio V. Panganiban

**Nomination Committee**
Reynaldo G. David - Chairman
Eric O. Recto
Estelito P. Mendoza
Virgilio S. Jacinto - Advisor

**Executive Officers**

Below is the list of key executive officers as of December 31, 2011:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Date of Election</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ramon S. Ang</td>
<td>Chairman/CEO</td>
<td>January 8, 2009-present</td>
</tr>
<tr>
<td>Eric O. Recto</td>
<td>President</td>
<td>August 2008-present</td>
</tr>
<tr>
<td>Emmanuel E. Eraña</td>
<td>Senior Vice President and Chief Finance Officer</td>
<td>September 3, 2009-present</td>
</tr>
<tr>
<td>Lubin B. Nepomuceno</td>
<td>Senior Vice President and General</td>
<td>September 3, 2009-present</td>
</tr>
</tbody>
</table>
Lubin B. Nepomuceno, Filipino, 61 years old, is the Senior Vice-President and General Manager of the Company and heads the National Sales, Marketing, Refinery, Supply and Depot Operations, Procurement and Corporate Technical Engineering Services Group Divisions of the Company. He is also the President of Petron Marketing Corporation; a Director of Las Lucas Construction and Development Corporation, New Ventures Realty Corporation and Petron Freeport Corporation; and Trustee of Petron Foundation, Inc. Other current positions include: Director of San Miguel Yamamura Packaging Corporation, San Miguel Yamamura Packaging International Ltd., Mindanao Corrugated & Fibreboard Inc., and San Miguel Food & Beverage International Ltd., and President of Archen Technologies, Inc. He has held various board and executive positions in the San Miguel group. Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and an MBA from the De La Salle University. He also attended Advanced Management Program at the University of Hawaii, University of Pennsylvania and Japan’s Sakura Bank Business Management.

Emmanuel E. Eraña, Filipino, 50 years old, is the Senior Vice President and Chief Finance Officer of the Company. He holds various positions in the subsidiaries of the Company: Director of Petron Freeport Corporation; Deputy Chairman of Overseas Ventures Insurance Corporation; and President & CEO of Petrogen Insurance Corporation, Las Las Lucas Construction and Development Corporation, New Ventures Realty Corporation; and President of Petron Foundation, Inc. Prior to his transfer to Petron, he was the Chief Information Officer of the Corporate Service Unit of San Miguel Corporation. He began his career with San Miguel as a Finance Manager in 1998, then went on to hold other positions in the field of finance, namely: Finance Manager, San Miguel Pure Foods Company, Inc. (October - December 1999); Finance & Management Services Officer, San Miguel Food Group (2000-2001); Finance Officer, San Miguel Purefoods Corporation (January 2001- June 2002); Chief Finance Officer, San Miguel Purefoods Corporation (July 2002 - May 2005); Chief Finance Officer, SMFBL/NFL Australia (May 2005 - November 2006); Executive Assistant to the Chief Financial Officer, Corporate Service Unit (December 2006 - January 2008). Mr. Eraña has a Bachelor of Science degree in Accounting from the Colegio de San Juan de Letran.

Freddie P. Yumang, Filipino, 53 years old, is the Vice President for Refinery. He is also a Trustee of Petron Foundation, Inc. and a Director of Philippine Polypropylene Inc. He joined Petron as a Project Engineer Trainee in January 1982 then went on to assume various supervisory and managerial positions at the Petron Bataan 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, 2007 and 2011. Among his most notable achievements were receiving a Plaque of Recognition from the ME Alumni Association of the Mapua Institute of Technology in 2007 wherein he served as President from 2008 to 2009; and awarded as 2010 The Outstanding Mapuan Awardee by the National Association of
Mapua Alumni; a citation as one of the Outstanding Mechanical Engineers 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 and has MBA units from De La Salle University. 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.

Ma. Rowena O. Cortez, Filipino, 47 years old, is the Vice-President for Supply and Operations. She is a Director of Las Lucas Construction and Development Corporation and Petrochemical Asia (HK) Limited. She joined Petron’s Marketing Division as a Market Planning Analyst in 1993 then moved on to several supervisory and managerial positions in Marketing, Supply and Operations, and Supply Division. 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. She started her career with the PNOC-Energy Research and Development Center where she handled computer training, information systems and various research works on new and renewable sources of energy. Ms. Cortez holds a Bachelor of Science in Industrial Engineering and an MBA from the University of the Philippines. She also attended the Asian Institute of Management’s Finance Course. She has attended local and foreign trainings and seminars on management, supply chain, petroleum and petrochemicals, including the prestigious Energy Course at the University of Oxford in Oxfordshire, UK in 2008.

Susan Y. Yu, Filipino, 34 years old, is the Company’s Vice President for Procurement. She is a Trustee of Petron Foundation, Inc., Director of Overseas Ventures Insurance Corporation, Ltd. and the Managing Director of Petron Singapore Trading Pte. Ltd. Prior to joining Petron, she held the position of Assistant Vice President & Senior Corporate Procurement Manager of San Miguel Brewery, Inc.; Assistant Vice President & Senior Corporate Procurement Manager of San Miguel Corporation’s Corporate Procurement Unit; and Fuel Purchasing & Price Risk Management Manager of Philippine Airlines. She holds 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.

Albert S. Sarte, Filipino, 45 years old, is the Vice President for Treasurers. He is also the Treasurer of all Petron subsidiaries. He joined San Miguel Corporation in 1988 as Budget Analyst for Corporate Budget and was Assistant Vice President for International Treasury of San Miguel Corporation prior to moving to Petron. He graduated from the Ateneo de Manila University in 1987 with a Bachelor of Science degree in Business Management and has attended the Management Development Program of the Asian Institute of Management in 1995.

Archie B. Gupalor, Filipino, 43 years old, is the Vice President for National Sales. He has been with the San Miguel Group of Companies since 1990. Prior to his appointment in the Company, he held the position of Vice President and General Manager of San Miguel Foods, Inc. since 2009. He started his career with the Beer Division of San Miguel Corporation as a sales executive in 1990, working his way up to becoming supervisor then Trade Marketing Manager in 1999. He earned his Bachelor of Science degree in Industrial Psychology at the University of San Carlos and has attended several programs here and abroad.

Efren P. Gabrillo, Filipino, 56 years old, is the Assistant Vice President for Controllers. He is also the Controller for all Petron subsidiaries and Director for Petron Singapore Trading Private Limited. He was the Manager of Internal Audit from April 2003 to August 2009 before becoming its Assistant Vice President. He began his career with Petron as an Auditor in 1977 and went on to assume positions in Accounting, Treasury, Information Technology, and Materials & Services Procurement. He worked with Pilipinas Shell from December 1975 to December 1976. A Certified Public Accountant, Mr. Gabrillo is a member of the Philippine Institute of Certified Public Accountants and the Institute of Internal Auditors Philippines. He is a graduate of Bachelor of Science in Commerce, major in Accounting, from the De La Salle University. He also completed the Management Development Program of the Asian Institute of Management in October 2003 and has attended numerous trainings here and abroad.
Joel Angelo C. Cruz, Filipino, 51 years old, is the Company’s Assistant Vice President - General Counsel and Corporate Secretary and Compliance Officer, the Corporate Secretary and Compliance Officer of all Petron subsidiaries, a Trustee of Petron Foundation, Inc., and Assistant Corporate Secretary of Manila North Harbour Port, Inc. Previously, he was the Assistant Corporate Secretary and Legal Counsel of Petron and Assistant Corporate Secretary of all subsidiaries; an Associate of Del Rosario & Del Rosario Law Offices (1986) and Brilliantes Nachura Navarro & Arcilla Law Offices (1987-1989). He joined the Company in 1989. He is a member of the Integrated Bar of the Philippines. Atty. Cruz holds a Bachelor of Arts degree in Economics from the University of the Philippines and a Bachelor of Laws from San Beda College.

(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 of the Company.

(5) Involvement in Certain Legal Proceedings

The Company is not aware that any one of the incumbent directors and executive officers and persons nominated to become a director and executive officer 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 for the past five (5) years up to the latest date that is material to an evaluation of his/her ability or integrity as a director, executive officer or nominee for election as director or officer.

(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 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 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.

Compensation of Executive Officers and Directors
For the period ending December 31, 2011

<table>
<thead>
<tr>
<th>Name</th>
<th>Principal Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ramon S. Ang</td>
<td>Chairman</td>
</tr>
<tr>
<td>Eric O. Recto</td>
<td>President</td>
</tr>
<tr>
<td>Lubin B. Nepomuceno</td>
<td>SVP / General Manager</td>
</tr>
<tr>
<td>Emmanuel E. Eraña</td>
<td>SVP / Chief Finance Officer</td>
</tr>
<tr>
<td>Freddie P. Yumang</td>
<td>Vice President - Refinery</td>
</tr>
<tr>
<td>Susan Y. Yu</td>
<td>Vice President - Procurement</td>
</tr>
<tr>
<td>Tomas S. Cadiz, Jr.</td>
<td>Vice President - National Sales</td>
</tr>
<tr>
<td>Rowena O. Cortez</td>
<td>Vice President - Supply &amp; Operations</td>
</tr>
<tr>
<td>Albertito S. Sarte</td>
<td>Vice President - Treasurers</td>
</tr>
<tr>
<td>Jaime O. Lu</td>
<td>Vice President - General Manager, PPI</td>
</tr>
<tr>
<td>Efren P. Gabriilo</td>
<td>Asst. Vice President - Controller</td>
</tr>
<tr>
<td>Joel Angelo C. Cruz</td>
<td>Asst. Vice President - General Counsel &amp; Corporate Secretary</td>
</tr>
<tr>
<td>Bernardino R. Abes</td>
<td>Director</td>
</tr>
<tr>
<td>Romela M. Bengzon</td>
<td>Director</td>
</tr>
<tr>
<td>Aurora T. Calderon</td>
<td>Director</td>
</tr>
<tr>
<td>Eduardo M. Cojuangco, Jr.</td>
<td>Director</td>
</tr>
<tr>
<td>Ferdinand K. Constantino</td>
<td>Director</td>
</tr>
<tr>
<td>Reynaldo G. David</td>
<td>Director</td>
</tr>
<tr>
<td>Ronald W. Haddock</td>
<td>Director</td>
</tr>
<tr>
<td>Virgilio S. Jacinto</td>
<td>Director</td>
</tr>
<tr>
<td>Mirzan Mahathir</td>
<td>Director</td>
</tr>
<tr>
<td>Estelito P. Mendoza</td>
<td>Director</td>
</tr>
<tr>
<td>Roberto V. Ongpin</td>
<td>Director</td>
</tr>
<tr>
<td>Artemio V. Panganiban</td>
<td>Director</td>
</tr>
<tr>
<td>Nelly F. Villafuerte</td>
<td>Director</td>
</tr>
</tbody>
</table>

2011 (In PhP Million)
Total Comp - Top 5 Execs 107.11
Total Comp - Executives 155.42
Total Comp - Execs / Directors 172.85

Aggregate 10-11 (Top 5 Execs) 178.94
Aggregate 10-11 (Execs/Dirs) 285.68

Projected:
Aggregate 11-12 (Top 5 Execs) 224.56
Aggregate 11-12 (Execs/Dirs) 358.42
(C) Security Ownership of Certain Beneficial Owners and Management as of December 31, 2011

Security ownership of certain record and beneficial owners of more than 5% of common shares as of December 31, 2011 is as follows:

<table>
<thead>
<tr>
<th>Title of Class</th>
<th>Name &amp; address of record owner &amp; relationship with issuer</th>
<th>Name of beneficial owner &amp; relationship with record owner</th>
<th>Citizenship</th>
<th>No. of shares held</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Shares</td>
<td>SEA Refinery Corporation 19/F Liberty Center, dela Costa St., Salcedo Village, Makati City Major Stockholder</td>
<td>SEA Refinery Corporation</td>
<td>Filipino</td>
<td>4,696,885,564</td>
<td>50.10%</td>
</tr>
<tr>
<td>Common Shares</td>
<td>Petron Corporation Employees Retirement Plan SMC-HOC, 40 San Miguel Avenue, Mandaluyong City</td>
<td>Petron Corporation Employees Retirement Plan</td>
<td>Filipino</td>
<td>2,276,456,097</td>
<td>24.28%</td>
</tr>
<tr>
<td>Common Shares</td>
<td>San Miguel Corporation SMC-HOC, 40 San Miguel Avenue, Mandaluyong City</td>
<td>San Miguel Corporation</td>
<td>Filipino</td>
<td>1,702,870,560</td>
<td>18.16%</td>
</tr>
</tbody>
</table>

*SEA Refinery Corporation (SRC), Petron Corporation Employees Retirement Plan (PCERP) and San Miguel Corporation (SMC) are the record owners. In 2011, the shares of SRC, PCERP, and SMC were voted by Messrs. Ferdinand K. Constantino, Eric O. Recto, and Ramon S. Ang, as respective proxies of said shareholders.

Security ownership of directors and executive officers as of December 31, 2011 is as follows:

<table>
<thead>
<tr>
<th>Title of Class</th>
<th>Name of Record Owner</th>
<th>Citizenship</th>
<th>Amount of Ownership</th>
<th>Percent of Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Ramon S. Ang</td>
<td>Filipino</td>
<td>1,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Eric O. Recto</td>
<td>Filipino</td>
<td>1</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Eduardo M. Cojuangco, Jr.</td>
<td>Filipino</td>
<td>300,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Estelito P. Mendoza</td>
<td>Filipino</td>
<td>1,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Bernardino R. Abes</td>
<td>Filipino</td>
<td>1</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Roberto V. Ongpin</td>
<td>Filipino</td>
<td>1</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Ron W. Haddock</td>
<td>American</td>
<td>1</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Aurora T. Haddock</td>
<td>Filipino</td>
<td>1,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Mirzan Mahathir</td>
<td>Malaysian</td>
<td>1,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Romela M. Bengzon</td>
<td>Filipino</td>
<td>1,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Ferdinand K. Constantino</td>
<td>Filipino</td>
<td>-</td>
<td>N. A.</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Virgilio S. Jacinto</td>
<td>Filipino</td>
<td>1,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Nelly Favis-Villafuerte</td>
<td>Filipino</td>
<td>1,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Reynaldo G. David</td>
<td>Filipino</td>
<td>1,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common</td>
<td>Artemio V. Panganiban</td>
<td>Filipino</td>
<td>1,000</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred</td>
<td></td>
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</tr>
</tbody>
</table>
As of December 31, 2011, the total number of shares owned by the directors and officers is 470,285 (31,785 common shares and 438,500 preferred shares).

(2) Voting Trust Holders of 5% or more

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

(3) Changes in Control

Since SMC exercised its option to acquire the remaining 60% of SRC’s shares in December 2010, there have been no changes in the control of the Company.

(D) Certain Relationships and Related Transactions

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

The major stockholders of the company are:

<table>
<thead>
<tr>
<th>Stockholder</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEA Refinery Corporation</td>
<td>-</td>
</tr>
<tr>
<td>Petron Corporation Employees</td>
<td>-</td>
</tr>
<tr>
<td>Retirement Plan</td>
<td>-</td>
</tr>
<tr>
<td>San Miguel Corporation</td>
<td>-</td>
</tr>
</tbody>
</table>

The basis of control is the number of the percentage of voting shares held by each.
(E) Corporate Governance

Petron’s Board of Directors is composed of 15 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 of Directors is responsible for overseeing management of the Company.

In compliance with SEC Memo Circular No. 6, Series of 2009, amending SEC Memo Circular No. 2, Series of 2002, Petron further adopted revisions to its Corporate Governance Manual (Manual) which was approved by the Board on October 21, 2010. Further revisions to the Manual were also undertaken and approved by the Board on March 2, 2011. 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 Company’s governance, operations and information systems.

Pursuant to the requirements of the SEC, the Corporate Secretary and Compliance Officer of the Company participated in the online Corporate Governance (CG) Scorecard Survey for publicly-listed companies in November 2011, a project of the Institute of Corporate Directors (ICD) in collaboration with the PSE, the SEC and the Ateneo School of Law; the record of attendance of Directors at Board/Stockholders Meetings in January 2011; and the required yearly certification to the SEC/PSE on the compliance by the Company with its Corporate Governance Manual in January 2011. As a result of these efforts, Petron has consistently landed among the top 20 publicly-listed companies in good corporate governance since 2005 as determined by the ICD.

With the election of Mr. Reynaldo G. David and Retired Chief Justice Artemio V. Panganiban as Independent Directors to the Petron Board, the election of members 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 the Manual.

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

To further instill good governance in the Company, it will continue to coordinate with accredited providers for the attendance of the directors and the 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, 2011)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>1 Ramon Ang</td>
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<tr>
<td>2 Eric O. Recto</td>
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<tr>
<td>3 Eduardo M. Cojuangco, Jr.</td>
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<td>4 Estelito P. Mendoza</td>
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<td>5 Roberto V. Ongpin</td>
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<td>6 Bernardino R. Abes</td>
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<td>7 Ron W. Haddock</td>
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<td>8 Aurora T. Calderon</td>
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<td>9 Romela M. Bengzon</td>
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<tr>
<td>10 Ferdinand K. Constantino</td>
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<tr>
<td>11 Virgilio S. Jacinto</td>
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<td>/</td>
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</tr>
<tr>
<td>12 Joseph N. Pineda</td>
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<td>/</td>
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</tr>
<tr>
<td>13 Nelly Favis-Villafuerte*</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>14 Mirzan Mahathir</td>
<td>x</td>
<td>/</td>
<td>x</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
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</tr>
<tr>
<td>15 Artemio V. Panganiban</td>
<td>/</td>
<td>/</td>
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<td>/</td>
<td>/</td>
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<td>/</td>
</tr>
<tr>
<td>16 Reynaldo G. David</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>/</td>
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</tr>
</tbody>
</table>

* Replacing Dir. Pineda
PART V - EXHIBITS AND SCHEDULES

Exhibits and Reports on SEC Form 17-C

Below is a list of the annexes to this SEC Form 17-A, reports on SEC Form 17-C, and press releases submitted to the SEC.

Annexes

1. Annex “A” - Audited Financial Statements
2. Annex “B” - Index to Financial Statements & Supplementary Schedules

Reports on SEC Form 17-C

<table>
<thead>
<tr>
<th>Disclosure Date</th>
<th>Item Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 4, 2011</td>
<td>Petron Entering into a Share Sale and Purchase Agreement with Manila North Harbour Port Inc.</td>
</tr>
<tr>
<td>January 7, 2011</td>
<td>Attendance of Directors for 2010</td>
</tr>
<tr>
<td>February 2, 2011</td>
<td>Preferred Shares Dividend</td>
</tr>
<tr>
<td>February 10, 2011</td>
<td>Revised Attendance of Directors for 2010</td>
</tr>
<tr>
<td>March 2, 2011</td>
<td>Additional Revision in Petron’s Corporate Governance Manual</td>
</tr>
<tr>
<td>March 14, 2011</td>
<td>Approval of 2010 Financial Statements</td>
</tr>
<tr>
<td>May 11, 2011</td>
<td>2011 Annual Stockholders’ Meeting Date</td>
</tr>
<tr>
<td></td>
<td>Record Date for List of Qualified Stockholders</td>
</tr>
<tr>
<td></td>
<td>Agenda for the 2011 Annual Stockholders’ Meeting</td>
</tr>
<tr>
<td></td>
<td>Approval of Nominees to the Board of Directors and the Final List of Candidates for Independent Directors</td>
</tr>
<tr>
<td></td>
<td>Amendment of By-Laws</td>
</tr>
<tr>
<td></td>
<td>Dividend for Preferred Shares</td>
</tr>
<tr>
<td></td>
<td>Dividend for Common Shares</td>
</tr>
<tr>
<td></td>
<td>1Q 2011 Financial Performance Report</td>
</tr>
<tr>
<td>May 13, 2011</td>
<td>Results of Investors’ Briefing on the 1st Quarter 2011 Financial Performance Report</td>
</tr>
<tr>
<td>July 12, 2011</td>
<td>Dividend for Preferred Shares</td>
</tr>
<tr>
<td></td>
<td>Retention of Independent External Auditor</td>
</tr>
<tr>
<td>July 12, 2011 (Organizational Meeting)</td>
<td>Appointment of Members to the Executive Committee</td>
</tr>
<tr>
<td></td>
<td>Appointment of Members to the Audit Committee</td>
</tr>
<tr>
<td></td>
<td>Appointment of Members to the Compensation Committee</td>
</tr>
<tr>
<td></td>
<td>Appointment of Members to the Nomination Committee</td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
</tr>
<tr>
<td>--------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>August 8, 2011</td>
<td>Election of Executive Officers for 2011-2012</td>
</tr>
<tr>
<td>August 8, 2011</td>
<td>Appointment of General Counsel</td>
</tr>
<tr>
<td>August 15, 2011</td>
<td>Results of Investors’ Briefing on the 1st Half 2011 Financial</td>
</tr>
<tr>
<td>October 10, 2011</td>
<td>Performance Report</td>
</tr>
<tr>
<td>October 10, 2011</td>
<td>Petron receives a corporate credit rating of PRS Aaa (Corp.)</td>
</tr>
<tr>
<td>October 14, 2011</td>
<td>from the Philippine Rating Services Corporation (PhilRatings)</td>
</tr>
<tr>
<td>October 14, 2011</td>
<td>Furnishing the SEC of the Letter of Mr. Ramon S. Ang dated October 11,</td>
</tr>
<tr>
<td>October 21, 2011</td>
<td>2011 to DOE Secretary Jose Rene Almendras</td>
</tr>
<tr>
<td>October 21, 2011</td>
<td>Dividend for Preferred Shares</td>
</tr>
<tr>
<td>December 1, 2011</td>
<td>September YTD Financial Performance Report</td>
</tr>
<tr>
<td>December 1, 2011</td>
<td>Election of Atty. Nelly Favis-Villafuerte as New Director</td>
</tr>
</tbody>
</table>

### Press Releases

1. Petron Posts P7.9 Billion Income for 2010
2. Petron Posts P134.9 Billion Revenues for 1st Half Of 2011
3. Petron Posts P1.56 Billion Earnings for the Third Quarter Of 2011
SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on APR 16 2012.

By:

[Signatures]

RAMON S. ANG
Chairman/Chief Executive Officer

ERIC O. RECTO
President

EFREN P. GABRILLO
Assistant Vice President - Controllers

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

SUBSCRIBED AND SWORN to before me this _______ day of APR 16 2012 at MANDALUYONG CITY as affiants exhibiting to me their Competent Evidence of Identity as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Passport/CTC #</th>
<th>Date of Issue</th>
<th>Place of Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>RAMON S. ANG</td>
<td>XX0748364</td>
<td>7-11-2011</td>
<td>Manila</td>
</tr>
<tr>
<td>ERIC O. RECTO</td>
<td>XX2110242</td>
<td>9-25-2008</td>
<td>Manila</td>
</tr>
<tr>
<td>EFREN P. GABRILLO</td>
<td>XX0508222</td>
<td>2-27-2008</td>
<td>Manila</td>
</tr>
<tr>
<td>JOEL ANGELO C. CRUZ</td>
<td>XX2910025</td>
<td>9-11-2008</td>
<td>Manila</td>
</tr>
</tbody>
</table>

[Notary Public Signature]

ROSIME L. MAWALAN
Notary Public for Mandaluyong City
Notary Public Commission No. 3003-10
Last December 31, 2011
PTR No. 1996933 0-26-1 Mandaluyong City
LRN 07098 01-07-01 Mandaluyong City
Registration No. 42921
DUCO Head Office Complex,
4037-41 First Ave, 1063 Mandaluyong City
MCSC Compliance No. 18-c010822 03-30-10