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S. E. C. Registration Number

PETRON CORPORATION

(Company's Full Name)

SMC HEAD OFFICE 40 SAN MIGUEL AVE. MANDALUYONG CITY

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

ATTY. JOEL ANGELO C. CRUZ
Contact Person

886-3888
Company Telephone Number

1 2 - 3 1
Month Day
Fiscal Year

SEC Form 17-Q (1st Quarter 2013)
FORM TYPE

0 5 2 1
Month Day
Annual Meeting

N/A
Secondary License Type, if Applicable

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

Fiscal Number

LCU

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SECURITIES AND EXCHANGE COMMISSION

SEC Central Receiving and Records
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BY:
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended March 31, 2013.

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

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

5. Philippines
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. Mandaluyong City, 40 San Miguel Avenue, 1550
   Address of principal office Postal Code

8. (0632) 886-3888
   Registrant's telephone number, including area code

9. N/A
   (Former name, former address, and former fiscal year, if changed since last report.)

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	9,375,104,497 Shares
Preferred Stock	100,000,000 Shares
Total Liabilities	P221,224 million

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

Yes [X]   No [ ]

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

Philippine Stock Exchange	Common and Preferred Stocks

12. Indicate by check mark whether the Registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 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 [ ]

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

	Note	**Unaudited March 31 2013**	As Restated December 31 2012
ASSETS			
Current Assets			
Cash and cash equivalents	*12,13*	**P60,735**	P26,965
Financial assets at fair value through profit or loss	*12,13*	**179**	186
Available-for-sale financial assets	*12,13*	**52**	51
Trade and other receivables - net	*12,13*	**61,427**	57,731
Inventories		**48,381**	49,582
Other current assets		**11,143**	10,750
		181,917	145,265
Assets held for sale	*6*	**588**	588
Total Current Assets		**182,505**	145,853
Noncurrent Assets			
Available-for-sale financial assets	*12,13*	**792**	860
Property, plant and equipment - net	*8*	**117,165**	102,140
Investments in associates		**1,646**	1,641
Investment property - net		**116**	115
Deferred tax assets		**73**	78
Goodwill	*7*	**8,574**	10,261
Other noncurrent assets - net	*4,12,13*	**18,063**	18,643
Total Noncurrent Assets		**146,429**	133,738
		P328,934	P279,591
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*11,12,13*	**P106,989**	P99,735
Liabilities for crude oil and petroleum product importation	*12,13*	**29,555**	24,960
Trade and other payables	*12,13*	**12,579**	14,867
Derivative liabilities	*12,13*	**46**	245
Income tax payable		**110**	52
Current portion of long-term debt - net	*12,13*	**73**	73
Total Current Liabilities		**149,352**	139,932

Forward

	Note	Unaudited March 31 2013	As Restated December 31 2012
Noncurrent Liabilities			
Long-term debt - net of current portion	*11,12,13*	**P64,175**	P55,940
Retirement benefits liability	*4*	**980**	978
Deferred tax liabilities	*4*	**3,238**	3,098
Asset retirement obligation		**1,016**	997
Other noncurrent liabilities	*12,13*	**2,463**	2,435
Total Noncurrent Liabilities		**71,872**	63,448
Total Liabilities		**221,224**	203,380
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		**9,475**	9,475
Additional paid-in capital		**9,764**	9,764
Undated Subordinated Capital Securities		**30,614**	-
Retained earnings	*4*	**41,254**	40,115
Other reserves	*4*	**(368)**	(11)
Total Equity Attributable to Equity Holders of the Parent Company		**90,739**	59,343
Non-controlling interests		**16,971**	16,868
Total Equity		**107,710**	76,211
		P328,934	P279,591

See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements

Certified by:

EFREN P. GABRILLO
Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF INCOME
(UNAUDITED)
(Amounts in Million Pesos, Except Per Share Amounts)

		For the Three Months Ended March 31	
	Note	**2013**	As Restated 2012
SALES	*5*	**P111,998**	P74,655
COST OF GOODS SOLD		**105,732**	68,244
GROSS PROFIT		**6,266**	6,411
SELLING AND ADMINISTRATIVE EXPENSES		**(2,587)**	(1,972)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		**(2,208)**	(1,516)
INTEREST INCOME		**345**	340
SHARE IN NET INCOME OF ASSOCIATES		**4**	65
OTHER (INCOME) EXPENSES - Net		**1,169**	(55)
		(3,277)	(3,138)
INCOME BEFORE INCOME TAX		**2,989**	3,273
INCOME TAX EXPENSE		**791**	909
NET INCOME		**P2,198**	P2,364
Attributable to:			
Equity holders of the Parent Company	*15*	**P2,084**	P2,362
Non-controlling interests		**114**	2
		P2,198	P2,364
BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	*15*	**P0.17**	P0.20

See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements

Certified by:

EFREN P. GABRILLO
Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in Million Pesos)

	For the Three Months Ended March 31	
	2013	As Restated 2012
NET INCOME FOR THE PERIOD	**P2,198**	P2,364
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized fair value loss on available-for-sale financial assets, net of tax	**(8)**	(5)
Exchange differences on translation of foreign operations	**(486)**	126
Adjustment due to PAS 19, net of tax	**-**	(499)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD - NET OF TAX	**(494)**	(378)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**P1,704**	P1,986
Attributable to:		
Equity holders of the Parent Company	**P1,727**	P1,984
Non-controlling interests	**(23)**	2
	P1,704	P1,986

See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements

Certified by:

EFREN P. GABRILLO
Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
(Amounts in Million Pesos)

		Equity Attributable to Equity Holders of the Parent Company								
					Retained Earnings					
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Appro-priated	Unappro-priated	Other Reserves	Total	Non-controlling Interests	Total Equity
As at December 31, 2012 (Audited)		**P9,475**	**P9,764**	**P -**	**P25,171**	**P15,226**	**(P366)**	**P59,270**	**P16,868**	**P76,138**
Prior period adjustments	*4*	**-**	**-**	**-**	**-**	**(282)**	**355**	**73**	**-**	**73**
As at December 31, 2012 (As Restated)		**9,475**	**9,764**	**-**	**25,171**	**14,944**	**(11)**	**59,343**	**16,868**	**76,211**
Total comprehensive income (loss) for the period		**-**	**-**	**-**	**-**	**2,084**	**(357)**	**1,727**	**(23)**	**1,704**
Cash dividends	*16*	**-**	**-**	**-**	**-**	**(945)**	**-**	**(945)**	**-**	**(945)**
Issuance		**-**	**-**	**30,614**	**-**	**-**	**-**	**30,614**	**-**	**30,614**
Net additions to non-controlling interests and others		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**126**	**126**
As at March 31, 2013 (Unaudited)		**P9,475**	**P9,764**	**P30,614**	**P25,171**	**P16,083**	**(P368)**	**P90,739**	**P16,971**	**P107,710**
As at December 31, 2011 (Audited)		P9,475	P9,764	P -	P25,171	P14,917	P70	P59,397	P290	P59,687
Prior period adjustments	*4*	-	-	-	-	445	2,351	2,796	-	2,796
As at December 31, 2011 (As Restated)		9,475	9,764	-	25,171	15,362	2,421	62,193	290	62,483
Total comprehensive income (loss) for the period		-	-	-	-	2,362	(378)	1,984	2	1,986
Cash dividends	*16*	-	-	-	-	(1,414)	-	(1,414)	-	(1,414)
Net additions to non-controlling interests and others		-	-	-	-	-	-	-	19,198	19,198
As at March 31, 2012 (Unaudited)		P9,475	P9,764	P -	P25,171	P16,310	P2,043	P62,763	P19,490	P82,253

See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements

Certified by:

EFREN P. GABRILLO
Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in Million Pesos)

		For the Three Months Ended March 31	
	Note	**2013**	As Restated 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P2,989**	P3,273
Adjustments for:			
Share in net gains of associates		**(4)**	(65)
Retirement benefits cost		**124**	180
Interest expense and other financing charges		**2,208**	1,516
Depreciation and amortization		**1,331**	969
Interest income		**(345)**	(340)
Unrealized foreign exchange (gains) losses - net		**(147)**	211
Other (gains) losses		**40**	(17)
Operating income before working capital changes		**6,196**	5,727
Changes in noncash assets, certain current liabilities and others		**1,084**	(12,522)
Interest paid		**(1,755)**	(1,151)
Income taxes paid		**(162)**	(23)
Interest received		**348**	331
Net cash flows provided by (used in) operating activities		**5,711**	(7,638)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net additions to (including disposals):			
Property, plant and equipment	*8*	**(14,275)**	(6,431)
Decrease (increase) in:			
Other receivables		**(4,112)**	(411)
Other noncurrent assets		**515**	8,093
Reductions from (additions to):			
Financial assets at fair value through profit or loss		**2**	32
Investments		**-**	383
Acquisition of subsidiaries, net of cash and cash equivalents acquired		**-**	(19,195)
Available-for-sale financial assets		**66**	58
Net cash flows used in investing activities		**(17,804)**	(17,471)

Forward

	Note	For the Three Months Ended March 31 2013	As Restated 2012
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans		**P93,074**	P71,341
Payments of:			
Cash dividends		**(694)**	(259)
Loans		**(77,191)**	(48,653)
Proceeds from issuance of undated subordinated capital securities		**30,614**	-
Proceeds from issuance of a subsidiary's preferred stock to non-controlling interest		**-**	14,406
Increase (decrease) in other noncurrent liabilities		**93**	(146)
Net cash flows provided by financing activities		**45,896**	36,689
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(33)**	(37)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**33,770**	11,543
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**26,965**	23,823
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**P60,735**	P35,366

See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements

Certified by:

EFREN E. GABRILLO
Vice President - Controllers

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Amounts in Million Pesos, Except Par Value, Number of Shares and Per Share Amounts)

1. Reporting Entity

Petron Corporation (the "Company" or "Petron") was incorporated under the laws of the Republic of the Philippines and is registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966.

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

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

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

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

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

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

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

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

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

2. Statement of Compliance

The consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended December 31, 2012. The consolidated interim financial statements do not include all the information required for full annual financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the audited consolidated financial statements of Petron Corporation and Subsidiaries (collectively referred to as the "Group") as at and for the year ended December 31, 2012. The audited consolidated financial statements are available upon request from the Group's registered office at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

The consolidated interim financial statements as at and for the three months ended March 31, 2013 were approved by the BOD on May 6, 2013.

3. Significant Accounting Policies

Except as described below, the accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended December 31, 2012. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ended December 31, 2013.

<u>Adoption of New Standards, Amendments to Standards and Interpretations</u>
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new or revised standards, amendments to standards, and interpretations [based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations] as part of PFRS.

Adopted Effective 2013

The Group has adopted the following applicable PFRS starting January 1, 2013 and accordingly, changed its accounting policies in the following areas, except for PFRS 11, *Joint Arrangements*. The SEC, through its SEC Memorandum Circular No. 6 dated April 23, 2013, allows corporations to present the prescribed information of PFRS 11 and recognize the impact in their interim financial statements starting with the period ended June 30, 2013.

- Presentation of Items of Other Comprehensive Income (Amendments to PAS 1, Presentation of Financial Statements). The amendments: (a) require that an entity presents separately the items of other comprehensive income that would be reclassified to profit or loss in the future, if certain conditions are met, from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the consolidated statement of comprehensive income to consolidated statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

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

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

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

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

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

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

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

  The Group adopted the amendments to PAS 19 with December 31, 2012 financial statements restated for comparative purposes. An explanation of how the adoption of the amendments has affected the reported financial position, financial performance and cash flows of the Group is discussed in Note 4.

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

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

- Amendments to PFRS 1, *First Time Adoption of PFRS: Government Loans*, addresses how a first-time adopter would account for a government loan with a below market-rate of interest when transitioning to PFRS's. The amendments mirror the requirements for existing PFRS preparers in relation to the application of the amendments made to PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* in relation to accounting for government loan. This amendment to a standard is not applicable to the Group.

- *Improvements to PFRS 2009-2011* contain amendments to 5 standards with consequential amendments to other standards and interpretations, of which the adoption is not expected to have an effect on the interim consolidated financial statements.

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

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

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

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

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

Except as otherwise indicated, the adoption of these foregoing new or revised standards, amendments to standards and Philippine Interpretations of IFRIC did not have a material effect on the interim consolidated financial statements.

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing the consolidated interim financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements of the Group. The Group does not plan to adopt these standards early.

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

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

- Investment Entities *(Amendments to PFRS 10, PFRS 12, and PAS 27 (2012)).* These amendments provide consolidation exception for investment funds and require qualifying investment entities to recognize their investments in controlled entities, as well as investments in associates and joint ventures, in a single line item in the statement of financial position, measured at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. However, the parent of an investment entity (that is not itself an investment entity) is still required to consolidate all subsidiaries. This consolidation exception is mandatory. The amendments are effective for annual periods beginning on or after January 1, 2014.

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

  The Group is still evaluating the possible financial impact of the adoption of PFRS 9 and does not plan to adopt this standard early.

4. Adoption of the Amendments to PAS 19

The amendments to PAS 19 require actuarial gains and losses to be recognized immediately in other comprehensive income. This change will remove the corridor method and eliminate the ability of entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which was previously allowed under PAS 19, and the expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

The adoption to the amendments to PAS 19 resulted in certain changes to the Groups's previous accounting policies. The amendments were applied on a retroactive basis and comparative statements for 2012 have been restated to reflect the changes in accounting policies.

The effects of adoption on the financial statements are as follows:

	2012	
	December 31	**January 1**
	Increase (decrease) in	
Consolidated Statements of Financial Position		
Retirement benefits liability	**P265**	(P667)
Pension assets presented as part of "Other noncurrent assets - net"	**391**	3,327
Deferred tax liability	**53**	1,198
Reserve for retirement plan presented as part of "Other Reserves"	**355**	2,351
Retained earnings - unappropriated	**(282)**	445

	March 31
Consolidated Statement of Income	
Retirement cost	**P179**
Provision for income tax	**(54)**
Consolidated Statement of Comprehensive Income	
Adjustment due to PAS 19	**(P499)**

Effect on the Consolidated Statement of Cash Flows for the Period Ended March 31, 2012. There are no material differences between the reported and the restated consolidated statements of cash flows except for the effects of noncash expense and the restatement of income before income tax as shown above.

5. Segment Information

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

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

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

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

c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.

d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.

e. Export sales of various petroleum and non-fuel products to other Asian countries such as South Korea, Hong Kong, Taiwan, Thailand, Cambodia, Malaysia, and Indonesia.

Segment Assets and Liabilities
Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions
Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of March 31, 2013 and December 31, 2012 (restated) and for the three months ended March 31, 2013 and 2012 (restated).

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
Period Ended March 31, 2013						
Revenue						
External Sales	**P111,313**	**P -**	**P -**	**P685**	**P -**	**P111,998**
Inter-segment Sales	**43,806**	**37**	**109**	**-**	**(43,952)**	**-**
Segment results	**3,485**	**22**	**46**	**20**	**106**	**3,679**
Net income	**2,126**	**40**	**10**	**21**	**2**	**2,198**
As of March 31, 2013						
Assets and liabilities						
Segment assets	**360,029**	**2,154**	**4,908**	**1,074**	**(39,304)**	**328,861**
Segment liabilities	**238,398**	**724**	**3,893**	**276**	**(25,305)**	**217,986**
Other segment information						
Property, plant and equipment	**111,977**	**-**	**-**	**257**	**4,931**	**117,165**
Depreciation and amortization	**1,306**	**-**	**-**	**10**	**15**	**1,331**

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
Period Ended March 31, 2012						
Revenue						
External Sales	P74,164	P -	P -	P491	P -	P74,655
Inter-segment Sales	63,036	29	64	-	(63,129)	-
Segment results	4,141	24	31	23	220	4,439
Net income	2,121	48	6	30	159	2,364
As of December 31, 2012						
Assets and liabilities						
Segment assets	314,637	1,737	4,764	1,089	(42,714)	279,513
Segment liabilities	225,036	328	3,759	312	(29,153)	200,282
Other segment information						
Property, plant and equipment	96,933	-	-	266	4,941	102,140
Depreciation and amortization	5,067	-	2	37	7	5,113

The following tables present additional information on the petroleum business segment as at March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012:

	Retail	Lube	Gasul	Industrial	Others	Total
Property, Plant and Equipment						
As at March 31, 2013	**P16,553**	**P224**	**P445**	**P136**	**P94,619**	**P111,977**
As at December 31, 2012	15,934	233	446	129	80,191	96,933
Capital Expenditures						
As at March 31, 2013	**P1,843**	**P1**	**P77**	**P43**	**P68,961**	**P70,925**
As at December 31, 2012	1,250	1	65	32	56,243	57,591
Revenue						
Period ended March 31, 2013	**P50,275**	**P811**	**P5,873**	**P31,294**	**P23,542**	**P111,795**
Period ended March 31, 2012	29,044	748	5,810	29,936	8,946	74,484

Geographical Segments

The following table presents assets and revenue information regarding the geographical segments of the Group as of and for the three months ended March 31, 2013 and 2012 and the year ended December 31, 2012, as restated.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
Period ended March 31, 2013						
Revenue						
Local	**P64,035**	**P25**	**P109**	**P685**	**(P816)**	**P64,038**
Export/International	**91,085**	**12**	**-**	**-**	**(43,137)**	**47,960**
As at March 31, 2013						
Assets						
Local	**P270,162**	**P877**	**P4,908**	**P1,079**	**(P39,806)**	**P237,220**
International	**89,929**	**1,276**	**-**	**-**	**509**	**91,714**
Period ended March 31, 2012						
Revenue						
Local	P68,617	P18	P64	P491	(P620)	P68,570
Export/International	68,583	11	-	-	(62,509)	6,085
As at December 31, 2012						
Assets						
Local	P227,220	P708	P4,764	P1,094	(P46,191)	P187,595
International	90,441	1,030	-	-	525	91,996

6. Assets Held For Sale

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

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

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

7. Acquisition of Subsidiaries

a. *Petron Global Limited (PGL)*

On February 24, 2012, Petron acquired PGL, a company incorporated under the laws of the British Virgin Islands and subscribed to an initial capital of 1,000 common shares with par value of US$1. Subsequent to this, PGL allotted additional 20,000,000, 11,170,180 and 10,874,028 common shares to Petron with par value of US$1 on March 9, 2012, September 13, 2012 and March 13, 2013, respectively.

Other than the common shares, PGL issued 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series B at an issue price equal to the par value of each share of US$1 on March 14, 2012 to a third party investor.

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

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

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

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

Assets	
Cash and cash equivalents	**P5,633**
Trade and other receivables - net	**12,811**
Inventories	**13,160**
Prepaid expenses and other current assets	**314**
Property, plant and equipment - net	**17,361**
Deferred tax assets	**28**
Other noncurrent assets - net	**6,273**
Liabilities	
Short - term loans	**(4,195)**
Liabilities for crude oil and petroleum product importation	**(16,360)**
Trade and other payables	**(1,934)**
Income tax payable	**(64)**
Long-term debt	**(10,123)**
Deferred tax liabilities	**(1,116)**
Other noncurrent liabilities	**(700)**
Total identifiable net assets at fair value	**P21,088**

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

Total cash consideration transferred	**P24,790**
Non-controlling interest measured at proportionate interest in identifiable net assets	**5,325**
Total identifiable net assets at fair value	**(21,088)**
Goodwill	**P9,027**

Movement of goodwill for the three months ended March 31, 2013 follows:

Goodwill beginning of the period	**P10,200**
Adjustments on the fair value of total identifiable net assets at the time of acquisition	**(1,173)**
Translation adjustments	**(514)**
Goodwill end of period	**P8,513**

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

In 2012, New Ventures Realty Corporation (NVRC), a subsidiary, acquired 100% of PEDC.

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

Property, plant and equipment - net	**P117**
Trade and other payables	**(5)**
Total identifiable net assets at fair value	**P112**

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

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

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

d. *Limay Energen Corporation (LEC)*

In January 2012, LEC became wholly-owned by the Parent Company following its acquisition from Two San Isidro - SIAI Assets, Inc. of all of the latter's shares in LEC.

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

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

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

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

e. Mariveles Landco Corporation (MLC)

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

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

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

The Group is currently completing the purchase price allocation exercise on the acquisition of MLC. The identifiable net assets at fair value are based on provisionary amounts as at the acquisition date.

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

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

8. Property, Plant and Equipment

This account consists of:

	Buildings and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction In-progress	Total
Cost:							
December 31, 2011	14,175	37,810	6,069	3,070	5,525	18,168	84,817
Additions	57	57	61	316	461	40,896	41,848
Disposals/reclassifications/ acquisition of subsidiaries	8,377	11,356	8,446	793	4,146	(1,463)	31,655
Currency translation adjustment	(337)	(480)	(300)	(37)	(164)	(10)	(1,328)
December 31, 2012	22,272	48,743	14,276	4,142	9,968	57,591	156,992
Additions	107	3	35	11	8	14,111	14,275
Disposals/reclassifications	1,286	908	51	(5)	131	(199)	2,172
Currency translation adjustment	(127)	(182)	(113)	(19)	(64)	(11)	(516)
March 31, 2013	**23,538**	**49,472**	**14,249**	**4,129**	**10,043**	**71,492**	**172,923**
Accumulated depreciation and amortization:							
December 31, 2011	8,229	18,578	4,222	1,880	1,462	-	34,371
Additions	1,024	2,336	977	296	57	-	4,690
Disposals/reclassifications/ acquisition of subsidiaries	4,271	7,510	4,131	601	(4)	-	16,509
Currency translation adjustment	(181)	(329)	(178)	(30)	-	-	(718)
December 31, 2012	13,343	28,095	9,152	2,747	1,515	-	54,852
Additions	277	596	257	77	15	-	1,222
Disposals/reclassifications/	(4)	-	(25)	(7)	-	-	(36)
Currency translation adjustment	(71)	(128)	(69)	(12)	-	-	(280)
March 31, 2013	**13,545**	**28,563**	**9,315**	**2,805**	**1,530**	**-**	**55,758**
Net book value:							
December 31, 2012	P8,929	P20,648	P5,124	P1,395	P8,453	P57,591	P102,140
March 31, 2013	**P9,993**	**P20,909**	**P4,934**	**P1,324**	**P8,513**	**P71,492**	**P117,165**

Capital Commitments

As at March 31, 2013, the Group has outstanding commitments to acquire property, plant and equipment amounting to P10,944 (December 31, 2012: P13,542).

9. Fuel Supply Contract

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

As at March 31, 2013, the following are the fuel supply contracts granted to the Parent Company:

<u>NPC</u>

Bid Date	Date of Award	Contract Duration	Volume in KL			Contract Price		
			DFO*	IFO*	ELO*	DFO*	IFO*	ELO*
Dec. 29, 2011	Jan. 11, 2012	Calayan DP & others (Jan.- Dec. 2012 with 6 months extension)	39,000	21,335		1,682	1,682	
Dec. 29, 2011	July 4, 2012	Repeat Order for CY 2012 Contract (July – Dec. 2012 with 6 months extension)	5,783			258		
Dec. 29, 2011	Feb. 29, 2012	NPC Calapan Modular and Jolo (Jan.-Dec. 2012 with 6 months extension)	23,708			1,032		
Apr. 19, 2012	May 10, 2012	NPC Engine Lubricating Oil (May-Dec. 2012 with 6 months extension)			747			74
Nov. 13, 2012	Dec. 5, 2012	NPC Additional Contract 2012 (Nov.-Dec. 2012 with 6 months extension)	12,888			545		
Nov. 13, 2012	Dec. 5, 2012	NPC Repeat Order (Nov.- Dec. 2012 with 6 months extension)	2,079			87		
Mar 5, 2013	Mar 13, 2013	NPC Mar- Dec. 2013	18,908	2,829		758	95	

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

<u>PSALM</u>

Bid Date	Date of Award	Contract Duration	Volume in KL			Contract Price		
			DFO*	IFO*	ELO*	DFO*	IFO*	ELO*
Feb. 21, 2012	Mar. 9, 2012	Power Barge 101 (March- December 2012 with 6 months extension)		5,950			205	
Feb. 21, 2012	Mar. 9, 2012	Power Barge 102 (March- December 2012 with 6 months extension)		6,830			236	

(Forward)

Bid Date	Date of Award	Contract Duration	Volume in KL			Contract Price		
			DFO*	IFO*	ELO*	DFO*	IFO*	ELO*
Feb. 21, 2012	Mar. 9, 2012	Power Barge 103 (March- December 2012 with 6 months extension)		5,960			208	
Feb. 21, 2012	Mar. 9, 2012	Power Barge 104 (March- December 2012 with 6 months extension)		18,550			643	
May 28, 2012	June 20, 2012	Power Barge 102 (June- December 2012 with 6 months extension)	480			21		
May 28, 2012	June 20, 2012	Power Barge 103 (June- December 2012 with 6 months extension)	480			22		
May 28, 2012	June 20, 2012	Power Barge 104 (June- December 2012 with 6 months extension)	830			36		
May 28, 2012	June 20, 2012	Western Mindanao Power Corporation (June- December 2012 with 6 months extension)	60			3		
Oct. 10, 2012	Oct. 24, 2012	Power Barge 101 Engine Lubricating Oil (October- December 2012 with 6 months extension)			120			12
Oct. 10, 2012	Oct. 24, 2012	Power Barge 102 Engine Lubricating Oil (October- December 2012 with 6 months extension))			120			12
Oct. 10, 2012	Oct. 24, 2012	Power Barge 103 Engine Lubricating Oil (October- December 2012 with 6 months extension)			120			12
Oct. 10, 2012	Oct. 24, 2012	Power Barge 104 Engine Lubricating Oil (October- December 2012 with 6 months extension)			160			16
Mar. 7, 2013	Mar. 26, 2013	Power Barge 103 (March- December 2013)	390			15		
Mar. 7, 2013	Mar. 26, 2013	Southern Philippines Power Corporation (March- December 2013)	90			4		
Mar. 7, 2013	Mar. 26, 2013	Western Mindanao Power Corporation (March- December 2013	70			3		

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

10. Related Party Transactions

The Parent Company, certain subsidiaries and their shareholders and associates, in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates. The balances and transactions with related parties as of March 31, 2013 and December 31, 2012 follow:

	Year	Revenue From Related Parties	Purchases From Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement plan	**2013**	**P184**	**P -**	**P15,765**	**P -**	On demand/	Unsecured;
	2012	P557	P -	P15,517	P -	long-term;	No impairment
						Interest bearing	
Ultimate Parent	**2013**	**1**	**11**	**4**	**12**	On demand;	Unsecured;
	2012	5	87	7	20	Non-interest bearing	No impairment
Under common control	**2013**	**3,594**	**576**	**2,543**	**650**	On demand;	Unsecured;
	2012	13,680	2,106	1,971	612	Non-interest bearing	No impairment
Associates	**2013**	**14**	**-**	**9**	**28**	On demand;	Unsecured;
	2012	78	-	17	28	Non-interest bearing	No impairment
Joint venture	**2013**	**-**	**-**	**15**	**-**	On demand;	Unsecured;
	2012	-	45	18	25	Non-interest bearing	No impairment
	2013	**P3,793**	**P587**	**P18,336**	**P690**		
	2012	P14,320	P2,238	P17,530	P685		

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

b. Purchases relate to purchase of goods and services such as construction, information technology and shipping with various subsidiaries of SMC.

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

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

e. The Parent Company advanced certain monies to the PCERP for some investment opportunities.

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

g. Amounts owed to related parties consist of trade and nontrade payables and other noncurrent liabilities.

11. Loans and Borrowings

Short-term Loans

The movements of short-term loans for the three months ended March 31, 2013 follows:

Balance at January 1, 2012	P99,735
Loan availments	67,667
Loan repayments	(60,051)
Reclassification/Translation adjustment	(362)
Balance at March 31, 2013	P106,989

Average interest rates and maturities for these loans are consistent with that of December 31, 2012.

Long-term Debt

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

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

For the outstanding loans, the Parent Company is required to comply with the following:

1) Current ratio must not be lower than 1:1 as at the last day of each relevant period;

2) The ratio of Consolidated Net Adjusted Debt as at the last day of each relevant period to Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization in respect of each relevant period does not exceed 6.5:1;

3) The ratio of Consolidated Liabilities as at the last day of each relevant period to Consolidated Tangible Net Worth does not exceed 2.5:1;

4) The ratio of Consolidated Gross Debt to Consolidated Net Worth does not at any time exceed 2.75:1.

As at March 31, 2013, the Parent Company met all the covenants set out in its long-term debts.

12. Financial Risk Management Objectives and Policies

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

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

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

<u>Risk Management Structure</u>
The Group follows an enterprise-wide risk management framework for identifying, assessing and addressing the risk factors that affect or may affect its businesses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Information on the Group's US dollar-denominated financial assets and liabilities and their Philippine peso equivalents as of March 31, 2013 and December 31, 2012 are as follows:

	March 31, 2013		December 31, 2012	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**605**	**24,684**	226	9,277
Trade and other receivables	**984**	**40,147**	1,084	44,498
Other assets	**47**	**1,918**	58	2,381
	1,636	**66,749**	1,368	56,156
Liabilities				
Short-term loans	**878**	**35,822**	787	32,306
Liabilities for crude oil and petroleum product importation	**1,192**	**48,634**	1,010	41,460
Long-term debts (including current maturities)	**785**	**32,028**	575	23,604
Other liabilities	**148**	**6,038**	246	10,098
	3,003	**122,522**	2,618	107,468
Net foreign currency - denominated monetary liabilities	**(1,367)**	**(55,773)**	(1,250)	(51,312)

The Group reported net foreign exchange gains amounting to P110 and P257 for the period ending March 31, 2013 and March 31, 2012, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
March 31, 2012	42.92
December 31, 2012	41.05
March 31, 2013	40.80

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of profit before tax and equity as of March 31, 2013 and December 31, 2012:

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
March 31, 2013	**Effect on Income Before Income Tax**	**Effect on Equity**	**Effect on Income Before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P425)**	**(P478)**	**P425**	**P478**
Trade and other receivables	**(46)**	**(970)**	**46**	**970**
Other assets	**(30)**	**(38)**	**30**	**38**
	(501)	**(1,486)**	**501**	**1,486**
Short-term loans	**165**	**829**	**(165)**	**(829)**
Liabilities for crude oil and petroleum product importation	**592**	**1,015**	**(592)**	**(1,015)**
Long-term debts (including current maturities)	**785**	**550**	**(785)**	**(550)**
Other liabilities	**72**	**126**	**(72)**	**(126)**
	1,614	**2,520**	**(1,614)**	**(2,520)**
	1,113	**1,034**	**(1,113)**	**(1,034)**

December 31, 2012	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income Before Income Tax	Effect on Equity	Effect on Income Before Income Tax	Effect on Equity
Cash and cash equivalents	(P94)	(P198)	P94	P198
Trade and other receivables	(73)	(1,062)	73	1,062
Other assets	(36)	(47)	36	47
	(203)	(1,307)	203	1,307
Short-term loans	45	773	(45)	(773)
Liabilities for crude oil and petroleum product importation	455	874	(455)	(874)
Long-term debts (including current maturities)	575	403	(575)	(403)
Other liabilities	121	209	(121)	(209)
	1,196	2,259	(1,196)	(2,259)
	P993	P952	(P993)	(P952)

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

Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P320 and P236 in the period ending March 31, 2013 and December 31, 2012, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table

As at March 31, 2013 and December 31, 2012, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

March 31, 2013	**<1 Year**	**1-<2 Years**	**2-<3 Years**	**3-<4 Years**	**4-<5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso denominated	**P84**	**P5,284**	**P84**	**P4,548**	**P20,036**	**P3,384**	**P33,420**
Interest rate	**6.3% - 9.3%**	**6.3% - 9.3%**	**6.3% - 9.3%**	**6.3% - 9.3%**	**6.3% - 7.2%**	**6.3% - 7.2%**	
US$ denominated (expressed in Php)	**-**	**3,876**	**11,249**	**11,249**	**5,654**	**-**	**32,028**
Interest rate*		**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**		
	P84	**P9,160**	**P11,333**	**P15,797**	**P25,690**	**P3,384**	**P65,448**

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

December 31,2012	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P83	P5,284	P84	P4,548	P20,036	P3,384	P33,419
Interest rate	6.3% - 9.3%	6.3% - 9.3%	6.3% - 9.3%	6.3% - 9.3%	6.3% - 7.2%	6.3% - 7.2%	
US$ denominated (expressed in Php)	-	2,668	8,855	8,855	3,226	-	23,604
Interest rate*		1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin		
	P83	P7,952	P8,939	P13,403	P23,262	P3,384	P57,023

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

Credit Risk

Credit Risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Group regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Group credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by the Sales and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that includes the President and the Chairman. Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the consolidated statements of financial position or in the notes to the consolidated financial statements, as summarized below:

	March 31, 2013	December 31, 2012
Cash in bank and cash equivalents (net of cash on hand)	**P56,856**	P22,033
Derivative assets	**38**	39
Trade and other receivables-net	**61,427**	57,731
Due from related parties	**10,789**	10,788
Long-term receivables	**72**	72
	P129,182	P90,663

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

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

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate risk in trade receivables. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, and cash bonds valued at P3,847 and P4,899 as of March 31, 2013 and December 31, 2012, respectively. These securities may only be called on or applied upon default of customers.

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

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

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

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

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

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of March 31, 2013 and December 31, 2012.

March 31, 2013	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P60,735**	**P60,735**	**P60,735**	**P -**	**P -**	**P -**
Trade and other receivables	**61,427**	**61,427**	**61,427**	**-**	**-**	**-**
Due from related parties	**10,789**	**10,789**	**-**	**10,789**	**-**	**-**
Derivative assets	**38**	**38**	**38**	**-**	**-**	**-**
Financial assets at FVPL	**141**	**141**	**141**	**-**	**-**	**-**
AFS financial assets	**844**	**871**	**352**	**446**	**73**	**-**
Long-term receivables	**72**	**84**	**8**	**33**	**16**	**27**
Financial Liabilities						
Short-term loans	**P106,989**	**P107,556**	**P107,556**	**P -**	**P -**	**P -**
Liabilities for crude oil and petroleum product importation	**29,555**	**29,555**	**29,555**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding taxes payable)	**11,845**	**11,845**	**11,845**	**-**	**-**	**-**
Derivative liabilities	**46**	**46**	**46**	**-**	**-**	**-**
Long-term debts (including current maturities)	**64,248**	**80,751**	**3,641**	**12,709**	**60,203**	**4,198**
Cash bonds	**359**	**364**	**343**	**11**	**4**	**6**
Cylinder deposits	**246**	**246**	**-**	**-**	**-**	**246**
Other noncurrent liabilities	**1,858**	**1,858**	**-**	**1,815**	**23**	**20**

December 31, 2012	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P26,965	P26,965	P26,965	P -	P -	P -
Trade and other receivables	57,731	57,731	57,731	-	-	-
Due from related parties	10,788	10,788	-	10,788	-	-
Derivative assets	39	39	39	-	-	-
Financial assets at FVPL	147	147	147	-	-	-
AFS financial assets	911	1,026	139	488	399	-
Long-term receivables	72	84	8	34	16	26
Financial Liabilities						
Short-term loans	P99,735	P100,174	P100,174	P -	P -	P -
Liabilities for crude oil and petroleum product importation	24,960	24,960	24,960	-	-	-
Accounts payable and accrued expenses (excluding taxes payable)	14,109	14,109	14,109	-	-	-
Derivative liabilities	245	245	245	-	-	-
Long-term debts (including current maturities)	56,013	71,822	3,560	11,208	52,856	4,198
Cash bonds	360	365	342	11	6	6
Cylinder deposits	213	213	-	-	-	213
Other noncurrent liabilities	1,862	1,862	-	1,815	24	23

Commodity Price Risk
Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices.

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

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

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

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

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

	March 31, 2013	December 31, 2012
Total assets	**P328,934**	P279,591
Total liabilities	**221,224**	203,380
Total equity	**107,710**	76,211
Asset to equity ratio	**3.1:1**	3.7:1
Debt to equity ratio	**2.2:1**	2.7:1

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

13. Financial Assets and Financial Liabilities

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

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

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

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

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

The Group's financial assets at FVPL and derivative assets are included in this category.

The carrying values of financial assets under this category amounted to P179 and P186 as of March 31, 2013 and December 31, 2012, respectively.

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

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

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

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

The combined carrying values of financial assets under this category amounted to P133,023 and P95,556 as of March 31, 2013 and December 31, 2012, respectively.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Other reserves" in equity. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS investment securities, is reported as part of "Interest income" in the consolidated statements of income. The unrealized gains and losses arising from the changes in fair value of AFS financial assets, net of tax, are excluded from profit and loss and are recognized as other comprehensive income reported in the consolidated statements of comprehensive income and in the consolidated statements of changes in equity under "Other Reserves" account. Any interest earned on AFS debt securities shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right of collection has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

Where the Group holds more than one investment in the same security, these are deemed to be disposed on a first-in, first-out basis. Interest and dividends earned on holding AFS financial assets are recognized in "Other Income" account in the consolidated statements of income when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as impairment losses in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any. The Group's investments in equity and debt securities included under "AFS" account are classified under this category.

The carrying values of financial assets under this category amounted to P844 and P911as of March 31, 2013 and December 31, 2012, respectively.

Financial Liabilities

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in the consolidated statements of income.

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

The carrying values of financial liabilities under this category amounted to P46 and P245 as of March 31, 2013 and December 31, 2012, respectively.

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

Included in this category are the Group's liabilities arising from its short term loans, liabilities for crude oil and petroleum product importation, trade and other payables, long-term debt, cash bonds, cylinder deposits and other non-current liabilities.

The combined carrying values of financial liabilities under this category amounted to P215,100 and P197,252 as of March 31, 2013 and December 31, 2012, respectively.

Debt Issue Costs
Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in profit or loss.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

Offsetting Financial Instruments

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

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of March 31, 2013 and December 31, 2012:

	March 31, 2013		December 31, 2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	**P60,735**	**P60,735**	P26,965	P26,965
Trade and other receivables	**61,427**	**61,427**	57,731	57,731
Due from related parties	**10,789**	**10,789**	10,788	10,788
Long-term receivables	**72**	**72**	72	72
Loans and receivables	**133,023**	**133,023**	95,556	95,556
AFS financial assets	**844**	**844**	911	911
Financial assets at FVPL	**141**	**141**	147	147
Derivative assets	**38**	**38**	39	39
FA at FVPL	**179**	**179**	186	186
Total financial assets	**P134,046**	**P134,046**	P96,653	P96,653

	March 31, 2013		December 31, 2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial liabilities (FL):				
Short-term loans	**P106,989**	**P106,989**	P99,735	P99,735
Liabilities for crude oil and petroleum product importation	**29,555**	**29,555**	24,960	24,960
Trade and other payables (excluding specific taxes and other taxes payable)	**11,845**	**11,845**	14,109	14,109
Long-term debt including current portion	**64,248**	**64,248**	56,013	56,013
Cash bonds	**359**	**359**	360	360
Cylinder deposits	**246**	**246**	213	213
Other noncurrent liabilities	**1,858**	**1,858**	1,862	1,862
FL at amortized cost	**215,100**	**215,100**	197,252	197,252
Derivative liabilities	**46**	**46**	245	245
Total financial liabilities	**P215,146**	**P215,146**	P197,497	P197,497

The following methods and assumptions are used to estimate the fair value of each class of financial instruments and when it is practicable to estimate such value:

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

Derivatives. The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Marked-to-market valuation in 2012 and 2011 of commodity hedges were based on the forecasted crude and product prices by Mitsui & Co. Commodity Risk Management Ltd. (MCRM), an independent trading group.

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

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

Cash Bonds. Fair value is estimated as the present value of all future cash flows discounted using the market rates for similar types of instruments.

Derivative Financial Instruments

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

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

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

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

Currency Forwards
As of March 31, 2013 and December 31, 2012, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$448 and US$963, respectively, and with various maturities in 2013 and 2012. As of March 31, 2013 and December 31, 2012, the net fair value of these currency forwards amounted to P2 and (P217), respectively.

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

Total outstanding equivalent notional quantity covered by the commodity swaps were 9.8 million barrels and 0.5million barrels for March 31, 2013 and December 31, 2012, respectively. The estimated net receipts for these transactions amounted to P845 and P30 for March 31, 2013 and December 31, 2012, respectively.

Commodity Options
As of March 31, 2013, the Group has outstanding 3-way options designated as hedge of forecasted purchases of crude oil with a notional quantity of 0.04 million barrels.

The call and put options can be exercised at various calculation dates in 2013 with specified quantities on each calculation date. The estimated amount net receipts of these call and put options as of March 31, 2013 amounted to P7.

Outstanding hedge on December 31, 2012 with notional quantities of 0.2 million barrels has an actual net receipt of P15.

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

As of March 31, 2013 and December 31, 2012, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$189 and US$83, respectively. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of March 31, 2013 and December 31, 2012, the net positive (negative) fair value of these embedded currency forwards amounted to (P10) and P11, respectively.

For the periods ended March 31, 2013 and December 31, 2012, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P209 and (P845), respectively.

Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value by valuation method as of March 31, 2013 and December 31, 2012. The different levels have been defined as follows:

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

March 31, 2013	**Level 1**	**Level 2**	**Total**
Financial Assets			
FVPL	**P141**	**P -**	**P141**
Derivative assets	**-**	**38**	**38**
AFS financial assets	**-**	**845**	**845**
Financial Liabilities			
Derivative liabilities	**-**	**(46)**	**(46)**

December 31, 2012	Level 1	Level 2	Total
Financial Assets			
FVPL	P147	P -	P147
Derivative assets	-	39	39
AFS financial assets	-	911	911
Financial Liabilities			
Derivative liabilities	-	(245)	(245)

The Group has no financial instruments valued based on Level 3 as of March 31, 2013 and December 31, 2012. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

14. Significant Transactions During the Period

On February 6, 2013, the Parent Company issued US$500 million Undated Subordinated Capital Securities (USCS) at the issue price of 100%. In March 2013, Petron reopened the issuance of the securities under the same terms and conditions of the earlier USCS. The additional US$250 million, issued at the price of 104.25%, was settled on March 11, 2013. At the option of the issuer, the securities may be redeemed after five and a half years or on any distribution payment date thereafter. The proceeds will be applied by the Parent Company towards capital and other expenditures in respect of RMP-2 and used for general corporate purposes.

15. Earnings Per Share

Basic and diluted earnings per share amounts for the three months ended March 31, 2013 and 2012 are as follows:

	2013	2012
Net income attributable to equity holders of the Parent Company	**P2,084**	P2,362
Dividends on preferred shares for the period	**476**	476
Net income attributable to common shareholders of Parent Company	**P1,608**	P1,886
Weighted average number of common shares outstanding (in millions)	**9,375**	9,375
Basic and diluted earnings (loss) per common share	**P0.17**	P0.20

As at March 31, 2013 and 2012, the Group has no dilutive debt or equity instruments.

16. Dividends

On March 18, 2013 the BOD approved cash dividend of P2.382 per share for preferred shareholders for the second and third quarter of 2013 with the following record and payment dates:

Period	Record Date	Payment Date
Second Quarter	May 10, 2013	June 5, 2013
Third Quarter	August 8, 2013	September 5, 2013

On the same date, the BOD approved cash dividend of P0.05 per share for common shareholders as of April 12, 2013 to be paid on May 8, 2013.

17. Commitments and Contingencies

Supply and Lease Agreements

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

On September 30, 2009, NVRC entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use for refinery, commencing January 1, 2010 and ending on December 31, 2039. The annual rental shall be P93 payable on the 15th day of January each year without the necessity of demand. This non-cancelable lease is subject to renewal options and annual escalation clauses of 3% per annum up to 2012. The leased premises shall be reappraised starting 2012 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the appraisal. Reappraisal of leased premises is on-going. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as at March 31, 2013, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

Unused Letters of Credit and Outstanding Standby Letters of Credit

Petron has unused letters of credit totaling approximately P29,969 and P31,417 as at March 31, 2013 and December 31, 2012, respectively.

Tax Credit Certificates-Related Matters

In 1998, the Bureau of Internal Revenue (BIR) issued a deficiency excise tax assessment against Petron relating to Petron's use of P659 of Tax Credit Certificate ("TCCs") pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the Court of Tax Appeals (CTA). In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection of the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the Court of Appeals in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012.

In 2002, the BIR issued a P254 assessment against Petron for deficiency excise taxes for the years 1995 to 1998 resulting from the cancellation by the Department of Finance (DOF) of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. On May 4, 2007, the CTA (2nd division) denied Petron's petition, ordering Petron to pay the BIR P601 representing the Petron's P254 unpaid deficiency excise taxes for the taxable years 1995 to 1998 and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA En Banc, which ruled in favor of the Petron, reversing the unfavorable decision of the CTA (2nd Division). The BIR contested the CTA En Banc decision before the Supreme Court. On March 21, 2012, the Supreme Court promulgated a decision in favor of Petron and against the BIR affirming the decision of the CTA En Banc finding that the BIR had no legal basis to assess the excise taxes or any penalty surcharge or interest thereon as Petron was an innocent transferee for value of the subject TCCs which had therefore properly filed its tax returns, and paid the appropriate taxes using such TCCs, for the years 1995 to 1998 (March 21 Decision). A motion was subsequently filed by the office of the solicitor general seeking for the reconsideration of the above decision. On July 11, 2012, the Supreme Court (2nd Division) issued a resolution upholding its decision and denying the office of the Solicitor General's motion for reconsideration with finality. The March 21 Decision in favor of Petron became final and executory on September 5, 2012.

<u>Pandacan Terminal Operations</u>

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

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance 8119), which applied to the entire City of Manila. Ordinance 8119 allowed the Parent Company (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by the Parent Company questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, the Parent Company, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the Parent Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, the Parent Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance 8027.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187 (Ordinance 8187), which amended Ordinance 8027 and Ordinance 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012, the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. On September 25, 2012, the Parent Company sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by the Parent Company. The Parent Company filed a notice of appeal on January 23, 2013. In an order dated February 6, 2013, the RTC of Manila ordered that the records of the case be forwarded to the Court of Appeals.

With regard to Ordinance 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinment of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within 5 years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Parent Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Parent Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Parent Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

<u>Oil Spill Incident in Guimaras</u>

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

In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (Republic Act No. 9275, the Clean Water Act) and homicide and less serious physical injuries were filed against the Parent Company. Complainants claim that their exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill has caused them major health problems. On February 13, 2012, an Information was filed against the owner and the Captain of MT Solar 1 and Messrs. Khalid Al-Faddagh and Nicasio Alcantara, former President and Chairman of the Parent Company, respectively, for violation of the Clean Water Act. On March 28, 2012, the court dismissed the information for lack of probable cause and for lack of jurisdiction over the offense charged. The Provincial Prosecutor and the private prosecutor filed a motion for reconsideration of this March 28 Order of the court. On August 13, 2012, the court issued an order denying the said motion for reconsideration.

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

18. Event After Reporting Date

In April 2013, NVRC acquired 100% of South Luzon Prime Holdings, Inc. for a total consideration of P66.

19. Other Matters

a. There were no seasonal aspects that had a material effect on the financial position or financial performance of the Group.

b. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2013.

c. Known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity:

Gross Domestic Product (GDP)

The Philippine economy expanded robustly in 2012 with GDP growing by 6.6% from 3.9% in 2011. Strong growth was boosted by sustained consumer spending, recovery in exports, and surge of government consumption after under spending in 2011. On the supply side, strong performance of industry and services sectors provided support to the high economic growth.

91-Day Treasury-Bill Rate

91-day T-Bills dropped further with 2013 first quarter rates averaging at 0.059% from 0.345% in fourth quarter of 2012. Interest rates have been consistently low due to the sufficient liquidity in the domestic financial markets and low inflation. The recent upgrade of the country's credit rating to investment grade by Fitch also gave support to low interest rates.

Peso-Dollar Exchange Rate

The Peso continued its appreciating trend in first quarter of 2013 and averaged P40.7/$, from an average of P42.2/$ in the year 2012 and P41.2/$ in the fourth quarter of 2012. The continuously growing OFW remittances, Bangko Sentral ng Pilipinas (BSP)'s high dollar reserves, and strong foreign investment inflow supported the peso's strength.

Inflation

Inflation remained low at an average of 3.2% in the first quarter of 2013, same as the full year 2012 inflation average of 3.2%. Increase in prices of goods such as key food items, housing equipment, fuels, etc have been gradual. First quarter average inflation is well within the government's target inflation of 3-5% for 2013.

Dubai price

Oil prices remained volatile in the first quarter of 2013. From $107/bbl at the start of the year, Dubai peaked at $114/bbl in February, then dropped to a low of $104/bbl in March. Uncertainties in the global economy are causing the volatility in oil prices. Eurozone countries are still in distress while China's growth has been slowing down. As of March 2013 year-to-date, Dubai averaged $108.1/bbl, much lower than $116.5/bbl average in the same period last year.

Industry Oil Demand

Preliminary data from DOE shows that as of February 2013, total oil industry demand (excluding lubes and greases) dropped by 3% to 17.5 million barrels (297.5 million barrels per day) from 18 million barrels (301.4 MBD) in same period in 2012. Higher prices in the first 2 months of 2013 compared to end 2012 levels may have slowed down oil demand.

Tight Industry Competition. Competition remains stiff with the new players implementing different marketing strategies and aggressively expanding. As of YTD Feb 2013, the new players (based on preliminary data from DOE excluding direct imports) have collectively cornered around 26.3% of the total oil market. Collectively, the new players are leading the LPG market segment with 57.3% market share.

Illegal Trading Practices. Cases of smuggling and illegal trading (e.g. "bote-bote" retailing, illegal refilling) continue to be a concern. These illegal practices have resulted in unfair competition among players.

Known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation:

Updates on 2013 Capital Program

The 2013 capital program endorsed last February 2013 is P9.5 billion, including that of Petron Malaysia. Of this amount, about P535 has been approved as of the first quarter of 2013.

Existing or Probable Government Regulation

Philippine National Standard (PNS) Specification for E-Gasoline. DOE revised the PNS for gasoline upgrading the minimum Research Octane Number (RON) to 91 RON. Implementation date of the revised standard is still under discussion.

EO 890: Removing Import Duties on All Crude and Refined Petroleum Products. After the ASEAN Trade in Goods Agreement (ATIGA) was implemented starting 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 eliminates 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 diesel contain 2% CME (cocomethyl ester). By February 2012, all gasoline grades should contain 10% ethanol. However, the Department of Energy extended an exemption to regular gasoline and gasoline with above 97 RON from the mandated ethanol content pending completion of technical testing on ethanol compatibility with motor vehicle engines especially the 2-stroke motorcycle engines. For Diesel, increasing CME content to 5% is currently being evaluated.

To produce compliant fuels, the Company invested in CME (coco methyl esther) 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.

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 January 2012 for white products.

Petron is already using double-hull vessels in transporting all products.

Clean Air Act. Petron invested in a Gasoil Hydrotreater Plant and in an Isomerization Plant to enable it to produce diesel and gasoline compliant with the standards set by law.

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 Department of Energy before they are allowed to operate. LPG cylinder requalifiers, repairers and scrapping centers, will also have to obtain a license from the Department of Trade and Industry. The Bill also imposes penalties on underfilling, underdelivering, 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 to 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 on the event of emergencies, calamities, war, rebellion, etc.

Compliance to Euro 4 standards. The Department of Environment and Natural Resources (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.

PETRON CORPORATION AND SUBSIDIARIES

RECEIVABLES
As of March 31, 2013
(Amounts in Million Pesos)

Breakdown:

Accounts Receivable – Trade	**P23,022**
Accounts Receivable – Non-Trade	38,405
Total Accounts Receivable	**P61,427**

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1 – 30 days	P21,400
	31 – 60 days	1,279
	61 – 90 days	123
	Over 90 days	1,293
Total		**24,095**
Allowance for doubtful accounts		1,073
Accounts Receivable – Trade		**P23,022**

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

Interim Financial Report as of March 31, 2013

Financial Condition and Results of Operations

Financial Performance

2013 vs 2012

Petron Corporation posted a consolidated net income of **₽ 2.2 billion** for the first quarter of 2013, 7% behind the restated income of ₽ 2.36 billion essentially due to lower margins. Reference prices for both crude oil and finished products dropped during the current period causing a drastic decline in retail prices against higher cost inventory. The Malaysian operations contributed ₽ 686 million to the total profit.

		Restated	Variance- Fav (Unfav)	
(In Million Pesos)	2013	2012	Amt	%
Sales	111,998	74,655	37,343	50
Cost of Goods Sold	105,732	68,244	(37,488)	(55)
Gross Margin	6,266	6,411	(145)	(2)
Selling and Administrative Expenses	2,587	1,972	(615)	(31)
Non-operating Charges	690	1,166	476	41
Net Income	2,198	2,364	(166)	(7)
EBITDA	5,817	5,403	414	8
Sales Volume (MB)	19,974	12,038	7,936	66
Earnings per Share	0.17	0.20	(0.03)	(15)
Return on Sales (%)	2.0	3.2	(1.2)	(38)

Note: 2012 Consolidated Statement of Income is restated to reflect the effect of the adoption of the amended PAS 19-Employee Benefits

Despite lower profit, **earnings before interest, taxes, depreciation and amortization (EBITDA)** improved by 8% from the ₱ 5.4 billion level a year earlier to **₱ 5.82 billion** this quarter.

On the other hand, **earnings per share** dropped by 15% from ₱ 0.20 to **₱ 0.17**. Similarly, r**eturn on sales** went down from 3.2% to **2.0%**.

Highlights of the first quarter performance are the following:

- **Sales volume** improved by 66% to **20 million barrels** from previous year's 12 million barrels due to the 8.4 million barrels contribution from Petron Malaysia (PM). Meanwhile, the Philippine operations showed a 4% decline compared with last year mainly due to lower supply and exports sales as a result of lower crude run, partly offset by the improvement registered in the domestic market.

- **Net sales** revenue increased by 50% to **₱ 112 billion** from ₱ 74.66 billion the year before. PM put in ₱ 44.49 billion while Petron Philippines accounted for the ₱ 67.51 billion balance or a 10% contraction from ₱ 74.66 billion the previous year brought about by the combined effect of the drop in selling price and the decline in sales volume.

- **Cost of Goods Sold (CGS)** surged to **₱ 105.73 billion** from last year's ₱ 68.24 billion due primarily to the ₱ 42.37 billion CGS of PM. Petron Philippines' CGS, on the other hand, decreased by 7% or ₱ 4.88 billion prompted by the decline in cost per barrel of crude that formed part of CGS (2013: US$110.82 vs 2012: US$112.21) and the ₱ 2.30 appreciation of peso vis-à-vis the US dollar.

- **Refinery Operating Expenses** in the Philippines fell by 14% to **₱ 1.46 billion** from ₱ 1.70 billion of the previous year. The decrease stemmed from reduced consumption of catalysts and electric power due to shutdown of several units as well as lesser maintenance and repair works since last year's figures included expenses related to emergency repairs of various process units.

- **Selling and Administrative Expenses (Opex)** aggregated to **₱ 2.59 billion,** 31% higher than the ₱ 1.97 billion expenditures during same period last year. Expenses incurred by PM of ₱ 915 million were tempered by the 15% or ₱ 300 million reduction in Petron Philippines. Aside from lower maintenance and repairs of existing service stations, the drop in Opex is also attributed to the decrease in donation (last year, we provided assistance to typhoon Sendong victims in Cagayan de Oro City). **Consolidated Opex per liter** of volume sold went lower at **₱ 0.81** this year from last year's ₱ 1.03.

- **Net Financing Costs and Other Charges** were reduced to **₱ 690 million** from the ₱ 1.17 billion level in the first quarter of 2012. The increase in financing costs (due to higher borrowing level despite lower interest rate) was more than offset by hedging gains during the current quarter against losses last year and higher foreign exchange gains this year.

2012 vs 2011

Petron's restated net income for the first quarter of 2012 stood at **₱ 2.36 billion**, lower by ₱ 1.07 billion than the ₱ 3.43 billion posted in 2011. The 31% drop was basically attributed to lower export volumes and higher production costs, tempered by the significant reduction in commodity hedging loss.

	Restated		Variance- Fav (Unfav)	
(In Million Pesos)	2012	2011	Amt	%
Sales	74,655	64,050	10,605	17
Cost of Goods Sold	68,244	55,529	(12,715)	(23)
Gross Margin	6,411	8,521	(2,110)	(25)
Selling and Administrative Expenses	1,972	1,425	(547)	(38)
Non-operating Charges	1,166	2,508	1,342	54
Net Income	2,364	3,434	(1,070)	(31)
EBITDA	5,403	6,344	(941)	(15)
Sales Volume (MB)	12,038	11,534	504	4
Earnings per Share	0.20	0.34	(0.14)	(41)
Return on Sales (%)	3.2	5.4	(2.2)	(41)

With lower net income, **earnings before interest, taxes, depreciation and amortization (EBITDA)** also fell from the ₱ 6.34 billion level a year earlier to **₱ 5.4 billion** this quarter.

Similarly, **Earnings per share** went down by 41% to **₱ 0.20** from ₱ 0.34 the year before while r**eturn on sales** contracted from 5.4% to **3.2%**.

Highlights of the first quarter performance are the following:

- **Sales volume** improved by 4% to **12.0MMB** from the previous year's 11.5MMB prompted by the 8% (0.8 MMB) increase in domestic market with higher sales of Diesel, Jet, Gasoline and LPG. Exports, however, dropped by 23% (0.3MMB).

- **Net sales revenue** grew by 17% to **₱ 74.66 billion** from ₱ 64.05 billion the previous year largely due to the escalation in average selling price per liter (2012: ₱ 39.01 vs. 2011: ₱ 34.93) driven by the 18% spike in regional MOPS prices (2012 Ave - US$126.38/bbl vs. 2011 Ave - US$107.54/bbl). The increase in price, however, was mitigated by the 23% rise in **Cost of Goods Sold (CGS)** from ₱ 55.53 billion during the first quarter of 2011 to **₱ 68.24 billion** in 2012.

- **Refinery Operating Expenses** which also formed part of CGS stood higher at **₱ 1.70 billion** than the ₱ 1.31 billion the year before. The increase was brought about by fuel requirement and other expenses related to the RMP2 project, payment of real property tax on projects previously enjoying tax holiday and higher maintenance and repairs with the turnaround of various process units.

- **Selling and Administrative Expenses** totaled **₱ 1.97 billion,** 38% higher than the previous year's ₱ 1.43 billion level. More aggressive advertising and promotional activities, higher maintenance and repairs of service stations, depreciation of new builds and donation to typhoon "Sendong" victims accounted for the rise in expenses. With higher increase in expenses over the growth in sales volume, **opex per liter** of volume sold surged from ₱ 0.78 last year to **₱ 1.03** this year.

- **Net Financing Costs and Other Charges** declined by more than half from ₱ 2.51 billion during the first quarter of 2011 to **₱ 1.17 billion** this quarter. The favorable variance was mainly due to lower commodity hedging loss (2012 – ₱ 154 million vs 2011 – ₱ 1.65 billion) and higher gain on US dollar-denominated transactions (2012 – ₱ 260 million vs 2011 – ₱ 148 million).

Financial Condition

2013 vs 2012

At the close of the first quarter of 2013, Petron's **total assets stood at ₱ 328.93 billion**, **18%** or **₱ 49.34 billion** higher than end-December 2012 level of ₱ 279.59 billion due largely to the increases in cash and cash equivalents and property, plant and equipment.

Cash and cash equivalents of **₱ 60.74 billion** was more than double the ₱ 26.97 billion as at end of 2012. The increase came mainly from the issuance of undated subordinated capital securities and net availment of loans. Proceeds were partly used to finance the major capital projects at the Refinery.

Trade and Other Receivables-net went up by 6% (₱ 3.7 billion) to **₱ 61.43 billion** on account of higher government receivables of Petron Philippines (PP) and PM coupled with the increase in receivables from hedging transactions.

Property, plant and equipment-net rose by 15% from ₱ 102.14 billion to **₱ 117.17 billion** owing to the capital projects at the Refinery such as the RMP-2 and Refinery Solid Fuel-Fired Power Plant (RSFFPP) on top of the new service station builds in PP and rebranding of service stations in PM. The appraisal increase in PM's property likewise contributed to the increase and correspondingly reduced the **Goodwill** from ₱ 10.26 billion to **₱ 8.57 billion.**

Available-for-sale financial assets (current and non-current) dropped by 7% to **₱ 844 million** essentially due to the maturity of government securities of the local insurance subsidiary as well as the translation loss of investment in government securities of the foreign insurance subsidiary.

Deferred tax assets slid by 6% to **₱ 73 million** brought about by the tax effect of unrealized profit of subsidiaries.

Short-term loans and **liabilities for crude oil and petroleum product importations** escalated by 10% to **₱ 136.54 billion** as a result of additional loan availments and higher finished product importations.

Trade and other Payables of **₱ 12.58 billion** showed a 15% (₱ 2.3 billion) reduction attributed to the decline in payables of PM.

Derivative Liabilities substantially decline from ₱ 245 million to **₱ 46 million** traceable to lower marked-to-market loss on outstanding foreign currency forwards.

Income tax payable amounted to **₱ 110 million,** twice as much the ₱ 52 million balance as at end of December 2012 owing to the taxes payable of PM.

Long-term debt inclusive of current portion went up by 15% (₱ 8.24 billion) to **₱ 64.25 billion** due mainly to the US$210 million loan drawn during the quarter (part of the US$485 million syndicated loan signed last year).

Deferred tax liabilities went up by 5% to **₱ 3.24 billion** principally due to the temporary differences arising from the outstanding hedging transactions of PP.

Total equity stood at **₱ 107.71 billion**, 41% or ₱ 31.5 billion higher than the ₱ 76.21 billion balance as at end of December 2012, basically on account of the ₱ 30.61 billion undated subordinated capital securities issued during the quarter.

<u>2012 vs 2011</u>

Petron ended the first quarter of 2012 with **total resources** of **₱ 262.43 billion** (as restated), **47%** higher than the end-December 2011 level of ₱ 179.12 billion (as restated) due to the following factors:

Cash and cash equivalents increased by 48% to **₱ 35.37 billion** due to the net proceeds from the US$400 million loan availed of during the quarter.

Financial assets at fair value through profit or loss dropped by 7% from ₱ 237 million to **₱ 221 million** brought about by the decline in market value of free standing derivative instruments.

Trade and Other Receivables-net of **₱ 41.64 billion** grew by 57% or ₱ 15.03 billion from the ₱ 26.61 billion level as at end of 2011 largely due to government receivables of the newly acquired subsidiary in Malaysia as well as higher trade receivables of Petron.

Inventories grew significantly from ₱ 37.76 billion to **₱ 63.53 billion** principally due to inventories of the newly acquired subsidiary coupled with higher volume and price of crude and finished products of Petron.

Other current assets of **₱ 11.85 billion** went beyond the ₱ 8.18 billion level in December 2011 essentially on account of higher Input VAT.

Property, plant and equipment-net increased by 45% from ₱ 50.45 billion to **₱ 72.98 billion,** attributed largely to capital expenditures at the Refinery specifically the Refinery Solid Fuel-Fired Power Plant and Refinery Master Plan 2 projects as well as additional service stations, on top of the ₱ 17.04 billion fixed assets of the newly acquired subsidiary in Malaysia.

Investment in associates went down from ₱ 2.51 billion to **₱ 1.21 billion** brought about by the one hundred percent acquisition of the powerplant.

Available-for-sale financial assets declined by 6% to **₱ 978 million** due to lower investment in bonds of Insurance subsidiaries.

Deferred tax assets-net moved up to **₱ 156 million** from ₱ 15 million in 2011 due to the balance assumed from the newly acquired subsidiary.

Goodwill of **₱ 10.49 billion** was recognized with the acquisition of Esso Malaysia and Exxon Mobil.

Other noncurrent assets fell by 16% to **₱ 23.24 billion** (as restated) with the partial collection of advances to Petron Corporation Employees' Retirement Plan partly offset by the balance from the newly acquired subsidiary in Malaysia.

Short-term loans and **liabilities for crude oil and petroleum product importations** increased by 69% (₱ 37.37 billion) to **₱ 91.80 billion** due to higher volume and price of crude importations in March 2012 compared with December 2011, on top of the balances carried over by the newly acquired subsidiary.

Trade and other payables rose by 70% to **₱ 12.56 billion** from ₱ 7.38 billion level on account of higher liabilities to contractors and suppliers for the Company's capital projects as well as balances assumed from the newly acquired subsidiary.

Even with lower taxable income**, Income tax payable** ballooned from ₱ 78 million to **₱ 606 million** since the December 2011 tax due was substantially offset by the application of creditable withholding taxes. EMB and EMBSB have taxes payable of ₱ 250 million.

Long-term debt inclusive of current portion ended higher by 36% from ₱ 49.87 billion to **₱ 67.99 billion** with Petron's availment of the US$400 million loan and POGI's US$130 million loan, partly offset by the advance payments made for NORD loan that will mature in June and December 2012.

Restated **Retirement benefits liability** increased significantly from ₱ 4 million to **₱ 941 million** with the consolidation of balances from the newly acquired subsidiary in Malaysia.

Restated **Deferred tax liabilities-net** amounted to **₱ 4.22 billion**, up by 40% from the ₱ 3.02 billion balance as at December 31, 2011 due to the impact of temporary differences of the newly acquired subsidiary.

Other non-current liabilities went up by 24% to **₱ 914 million** with the consolidation of the subsidiary in Malaysia as well as the increase in cylinder deposits.

Total equity surged to **₱ 82.25 billion** (as restated) as at the end of the first quarter, registering a 32% growth over the end-December 2011 level. The ₱ 19.77 billion increment was principally due to the ₱ 19 billion proceeds from the issuance of preferred shares by a subsidiary**.**

Cash Flows

This year's operating activities yielded cash inflow of **₱ 5.71 billion**. Meanwhile, proceeds from net availment of loans and the issuance of undated subordinated capital securities were used to finance the major capital projects at the Refinery.

In Million Pesos	**March 31, 2013**	**March 31, 2012**	**Change**
Operating inflows (outflows)	5,711	(7,638)	13,349
Investing outflows	(17,804)	(17,471)	(333)
Financing inflows	45,896	36,689	9,207

Discussion of the company's key performance indicators:

Ratio	**March 31, 2013**	**December 31, 2012 (As Restated)**
Current Ratio	1.2	1.0
Debt to Equity Ratio	2.2	3.1
Return on Equity (%)	9.6	2.5
Interest Rate Coverage Ratio	2.6	1.8
Assets to Equity Ratio	3.1	3.7

Current Ratio - Total current assets divided by total current liabilities.
This ratio is a rough indication of a company's ability to service its current obligations. Generally, the higher the current ratio, the greater the "cushion" between current obligations and a company's ability to pay them.

Debt to Equity Ratio - Total liabilities divided by tangible net worth.
This ratio expresses the relationship between capital contributed by creditors and that contributed by owners. It expresses the degree of protection provided by the owners for the creditors. The higher the ratio, the greater the risk being assumed by creditors. A lower ratio generally indicates greater long-term financial safety.

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

Interest Rate Coverage Ratio – EBITDA divided by interest expense and other financing charges.
This ratio is used to assess the company's financial stability by examining whether it is at least profitable enough to pay off its interest expenses. A ratio greater than 1 indicates that the company has more than enough interest coverage to pay off its interest expense.

Assets to Equity Ratio – Total assets divided by total equity (including non-controlling interest).
This ratio is used as a measure of financial leverage and long-term solvency. In essence, the function of the ratio is to determine the value of the total assets of the company, less any portion of the assets that are owned by the shareholders of the corporation.

PART II – OTHER INFORMATION

The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

NONE.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: PETRON CORPORATION

Signature and Title: ______________________________
JOEL ANGELO C. CRUZ
Vice President - General Counsel
and Corporate Secretary

Date: May 6, 2013

Principal Financial/Accounting Officer/Controller

Signature and Title: ______________________________
EFREN P. GABRILLO
Vice President - Controllers

Date: May 6, 2013