

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE; AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

Petron Corporation

(a company incorporated under the laws of the Republic of the Philippines)



Primary Offer in the Philippines of [7,000,000] Perpetual Preferred Shares Series 2,
with an Oversubscription Option of up to [3,000,000] Perpetual Preferred Shares Series 2
Series 2A: [●]
Series 2B: [●]
at an Offer Price of [₱1,000.00] per Preferred Share
to be listed and traded on the Main Board of The Philippine Stock Exchange, Inc.

Global Coordinator



Joint Lead Managers



THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

The date of this Prospectus is September 04, 2014.

Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City, Philippines
Telephone number: (632) 886 3888
Corporate website: www.petron.com

This Prospectus relates to the offer and sale of up to [10,000,000] cumulative, non-voting, non-participating, non-convertible peso-denominated Perpetual Preferred Shares Series 2 (the “Preferred Shares” or “Shares”) of Petron Corporation (“Petron”, the “Company” or the “Issuer”), a corporation duly organized and existing under Philippine law. The offer and sale of the Preferred Shares will be by way of a primary Offer (the “Offer”) of [7,000,000] Preferred Shares. In the event of an oversubscription, the Joint Lead Managers, in consultation with the Issuer, reserve the right, but not the obligation, to increase the Offer size up to an additional [3,000,000] Preferred Shares, subject to the registration requirements of the Philippine Securities and Exchange Commission (“SEC”) (the “Oversubscription Option”). The Preferred Shares will be issued on [●] (the “Listing Date”) by the Company from its 624,895,503 authorized preferred share capital, out of which 100,000,000 are currently issued and outstanding. Each Preferred Share has a par value of ₱1.00 and a liquidation right equal to the Offer Price of the Preferred Share plus an amount equal to any dividends declared but unpaid in respect of the previous dividend period and any accrued and unpaid dividends for the then-current dividend period to (and including) the date of commencement of the Company’s winding up or the date of any such other return of capital, as the case may be (the “Liquidation Right”).

The Preferred Shares are being offered for subscription solely in the Philippines through the Joint Lead Managers [and Co-Managers] and Selling Agents named herein at a subscription price of [₱1,000.00] per share (the “Offer Price”).

Following the Offer, the Company will have (a) 9,375,104,497 common shares and (b) [107,000,000] preferred shares issued and outstanding, if the Oversubscription Option is not exercised. On the other hand, if the Oversubscription Option is exercised in full, the Company will have (a) 9,375,104,497 common shares and (b) [110,000,000] preferred shares issued and outstanding. The holders of the Preferred Shares do not have identical rights and privileges with holders of the existing common shares of the Company.

The declaration and payment of dividends on the Shares on each Dividend Payment Date will be subject to the sole and absolute discretion of the Issuer’s Board of Directors (the “Board”) to the extent permitted by law, and subject to the covenants (financial or otherwise) in the agreements to which the Company is a party. The declaration and payment of dividends (except stock dividends) do not require any further approval from the shareholders.

As and if declared by the Board, dividends on the Preferred Shares shall be at a fixed rate of Series 2A: [●]% per annum, and Series 2B: [●]% per annum, in all cases calculated in respect of each Share by reference to the Offer Price thereof in respect of each Dividend Period (the “Dividend Rate”). Subject to the limitations described in this Prospectus, dividends on the Shares will be payable quarterly in arrears on [●],[●],[●] and [●] of each year (each a “Dividend Payment Date”) being the last day of each 3-month period (a “Dividend Period”) following the relevant Listing Date. Unless the Shares are redeemed by the Issuer on the Optional Redemption Date, the dividends on the Shares will be adjusted on the Optional Redemption Date to the higher of (a) the Dividend Rate or (b) the [●] (see “Summary of the Offering” on page 17).

Dividends on the Shares will be cumulative. If for any reason the Issuer’s Board does not declare a dividend on the Shares for a dividend period, the Issuer will not pay a dividend on the Dividend Payment Date for the dividend period. However, on any future Dividend Payment Date on which dividends are declared, holders of the Shares must receive the dividends due them on such Dividend Payment Date as

well as all dividends accrued and unpaid to the holders of the Shares prior to such Dividend Payment Date (see “Description of the Preferred Shares” on page 29).

As and if declared by the Board (or the Executive Committee), the Issuer may redeem the Preferred Shares on the [fifth anniversary for Series 2A Preferred Shares or on the seventh anniversary for Series 2B Preferred Shares] from Listing Date (the “Optional Redemption Date”) or on any dividend payment date thereafter, in whole but not in part, at a redemption price equal to the Offer Price of the Shares plus accrued and unpaid dividends for all dividend periods up to the date of actual redemption by the Issuer.

The Issuer may purchase the Shares at any time in the open market or by public tender or by private contract at any price through The Philippine Stock Exchange, Inc. (“PSE”). The Shares so purchased may either be redeemed and cancelled after the Optional Redemption Date or kept as treasury shares, as applicable.

All payments in respect of the Preferred Shares are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Government of the Republic of the Philippines (the “Government”), including, but not limited to, stamp, issue, registration, documentary, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the Issuer will pay additional amounts so that the holders of Preferred Shares will receive the full amount of the relevant payment which otherwise would have been due and payable, provided, however, that the Issuer shall not be liable for (a) the final withholding tax applicable on dividends earned on the Preferred Shares prescribed under the National Internal Revenue Code of 1997; (b) any income tax, whether or not subject to withholding; (c) expanded value added tax which may be payable by any holder of the Preferred Shares on any amount to be received from the Issuer under the Preferred Shares; and (d) any withholding tax of any amount payable to any holder of the Preferred Shares or any entity which is a non-resident foreign corporation. If payments become subject to additional withholding or any new tax as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer having given not more than 60 nor less than 30 days’ notice, may redeem the Shares in whole, but not in part at the Offer Price plus all accrued and unpaid dividends, if any. If an opinion of a recognized accountancy firm authorized to perform auditing services in the Republic of the Philippines has been delivered to the Issuer stating that the Preferred Shares may no longer be recorded as equity in the audited consolidated financial statements of the Issuer prepared in accordance with Philippine Financial Reporting Standards (“PFRS”), or such other accounting standards which succeed PFRS as adopted by the Issuer for the preparation of its audited consolidated financial statements for the relevant financial year, and such event cannot be avoided by use of reasonable measures available to the Issuer even before the Optional Redemption Date, the Issuer having given not more than 60 nor less than 30 days’ notice, may redeem the Preferred Shares in whole, but not in part at the Offer Price plus all accrued and unpaid dividends, if any. (see “Summary of the Offering” on page 17 and “Taxation” on page 143).

The Shares will constitute direct and unsecured subordinated obligations of the Issuer ranking at least *pari passu* in all respects and ratably without preference or priority among themselves with all other Preferred Shares issued by the Issuer. The Shares will rank at all times *pari passu* with the US\$750 million Undated Subordinated Capital Securities of the Company issued in 2013 (“Capital Securities”) and any other Parity Securities issued by the Company (see “Summary of the Offering” on page 17).

The Shares will be issued in scripless form. Title to the Shares shall pass by endorsement and delivery to the transferee and registration in the registry of shareholders to be maintained by the Registrar and Stock Transfer Agent. Settlement of the Shares in respect of such transfer or change of title of the Shares, including the settlement of documentary stamp taxes, if any, arising from subsequent transfers, shall be similar to the transfer of title and settlement procedures for listed securities in the PSE (see “Summary of the Offering” on page 17).

The gross proceeds of the Offer are expected to reach approximately [₱7,000,000,000.00 or ₱10,000,000,000.00], should the Joint Lead Managers, in consultation with the Issuer, exercise in full its

Oversubscription Option. The net proceeds from the Offer, estimated to be at [P6.9 billion] or [P9.9 billion], should the Issuer exercise in full its Oversubscription Option, are determined by deducting from the gross proceeds the total issue management, underwriting and selling fees, listing fees, taxes and other related fees and out-of-pocket expenses, and will be used by the Company primarily to redeem the 100,000,000 outstanding preferred shares with a redemption price (equivalent to Offer Price) of P100.00 per preferred share (“Outstanding Preferred Shares”) which are callable starting on March 5, 2015 or any dividend payment date thereafter (see “Use of Proceeds” on page 49). BDO Capital & Investment Corporation, China Banking Corporation, RCBC Capital Corporation, SB Capital Investment Corporation and Standard Chartered Bank, acting as Joint Lead Managers, shall receive an estimated fee of [0.75%] of the gross proceeds of the Offer, inclusive of amounts to be paid to any other Co-Managers and selling agents.

Some of the Company’s existing loan agreements contain covenants that restrict the declaration or payments of dividends under certain circumstances, such as the occurrence of an event of default under such loan agreements or if such payment would cause an event of default to occur, if certain financial ratios are not met or payment would cause them not to be met (see “Description of the Preferred Shares” on page 29).

No dealer, salesman or any other person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company, the Joint Lead Managers or any of the Co-Managers. The distribution of this Prospectus and the offer and sale of the Preferred Shares may, in certain jurisdictions, be restricted by law. The Company and the Joint Lead Managers require persons into whose possession this Prospectus comes, to inform themselves of and observe all such restrictions. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any securities of the Company in any jurisdiction, to or from any person to whom it is unlawful to make such offer in such jurisdiction. Unless otherwise stated, the information contained in this Prospectus has been supplied by the Company. To the best of its knowledge and belief, the Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Prospectus is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect. The Company hereby accepts full and sole responsibility for the accuracy of the information contained in this Prospectus. No representation, warranty or undertaking, express or implied, is made by any of the Joint Lead Managers, and no responsibility or liability is accepted by any thereof to the accuracy, adequacy, reasonableness or completeness of the information and materials contained herein (excluding any and all information pertaining to the Joint Lead Managers) or any other information provided by the Company in connection with the Preferred Shares, their distribution or their future performance. None of the Joint Lead Managers has independently verified any of the information contained in this Prospectus or can give any assurance that this information is accurate, truthful or complete.

Unless otherwise indicated, all information in the Prospectus is as of June 30, 2014. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company and its subsidiaries since such date. Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Company, the Joint Lead Managers makes any representation as to the accuracy of such information.

Each person contemplating an investment in the Preferred Shares should make his own investigation and analysis of the creditworthiness of Petron and his own determination of the suitability of any such investment. The risk disclosure herein does not purport to disclose all the risks and other significant aspects of investing in the Shares. A person contemplating an investment in the Preferred Shares should

seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially those high-risk securities. Investing in the Preferred Shares involves a higher degree of risk compared to debt instruments. For a discussion of certain factors to be considered in respect of an investment in the Preferred Shares, see the section on "Risk Factors" starting on page 36.

An application to list the Preferred Shares has been filed with the PSE and has been approved by the Board of Directors of the PSE on [●]. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of the Prospectus. The listing of the Preferred Shares is subject to the approval of the Board of Directors of the PSE. Such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Preferred Shares by the PSE.

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Petron Corporation

By:

Lubin B. Nepomuceno

President

SUBSCRIBED AND SWORN to before me this _____ day of _____
2014, affiant exhibiting to me his Philippine Passport no. _____ issued on
_____ at _____.

Doc. No. _____

Page No. _____

Book No. _____

Series of 2014.

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FORWARD-LOOKING STATEMENTS

All statements contained in this Prospectus that are not statements of historical fact constitute “forward-looking statements.” Some of these statements can be identified by forward-looking terms, such as “anticipate”, “believe”, “can”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “will” and “would” or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Company’s expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to the Company’s business strategy, its revenue and profitability (including, without limitation, any financial or operating projections or forecasts), planned projects and other matters discussed in this Prospectus regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Prospectus involve known and unknown risks, uncertainties and other factors that may cause the Company’s actual financial results, performance or achievements to be materially different from any future financial results, performance or achievements expressed or implied by such forward-looking statements or other projections.

The factors that could cause the Company’s actual results to be materially different include, among others:

- changes in crude oil prices;
- general political and economic conditions in the Philippines, Malaysia and elsewhere in the Asia-Pacific region;
- changes in currency exchange rates;
- accidents, natural disasters or other adverse incidents in the operation of the Company’s facilities;
- terms on which the Company finances its working capital and capital expenditure requirements;
- the ability of the Company to successfully implement its strategies;
- changes in governmental regulations, including those pertaining to regulation of the oil industry, zoning, tax, subsidies, operational health, safety and environmental standards; and
- competition in the oil industry in the Philippines and Malaysia.

Additional factors that could cause the Company’s actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Risk Factors” starting on page 36.

Should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected as well as from historical results. Specifically, but without limitation, revenues could decline, costs could increase, capital costs could increase, capital investments could be delayed and anticipated improvements in performance might not be realized fully or at all. Although the Company believes that the expectations of its management as reflected by such forward-looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to have been correct. Accordingly, prospective investors are cautioned not to place undue reliance on the forward-looking statements herein. In any event, these statements speak only as of the date hereof or the respective dates indicated herein, and the Company undertakes no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

DEFINITION OF TERMS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

AOC.....	Aramco Overseas Company B. V.
APM.....	Malaysian automatic pricing mechanism
Applicant	A person, whether natural or juridical, who seeks to subscribe for the Offer of the Shares
Banking Day	A day other than a Saturday or Sunday on which banks are open for business in Metro Manila
BIR	Philippine Bureau of Internal Revenue
Black Products	Fuel oil and asphalts
bpd	Barrels per day
BNM.....	Bank Negara Malaysia
BSP	Bangko Sentral ng Pilipinas
CBAs	Collective bargaining agreements
Chevron.....	Chevron Philippines, Inc.
Code.....	Philippine Securities Regulation Code
CODO.....	Company-owned-dealer-operated service stations
Co-Manager or Co-Managers.....	Joint Lead Managers, and other banks as may be appointed
Company, Issuer or Petron	Petron Corporation
Corporation Code	The Corporation Code of the Philippines
CSA	Malaysian Control of Supplies Act, 1961
CTA	Philippine Court of Tax Appeals
CTESG	Corporate Technical and Engineering Services Group
DENR	Philippine Department of Environment and Natural Resources
Depository Agent	Philippine Depository and Trust Corporation
DODO.....	Dealer-owned-dealer-operated service stations
DOE.....	Philippine Department of Energy
DOJ	Philippine Department of Justice
DTI.....	Philippine Department of Trade and Industry
ECC.....	Environmental Compliance Certificate

EIS.....	Environment Impact Statement
EMB.....	Environmental Management Bureau
EMS.....	Environmental Management System
EMEPMI.....	ExxonMobil Exploration and Production Malaysia Inc.
Enforcement Act.....	Malaysian Reciprocal Enforcement of Judgements Act 1958 (Revised 1972)
EPF	Malaysian employees' provident fund
EQA.....	Malaysian Environmental Quality Act, 1974
ExxonMobil	Sellers of shares in PMRMB, PFI Malaysia and POM
FIA.....	Philippine Foreign Investment Act of 1991
GDP.....	Gross domestic product
Government	Any government agency, authority, bureau, department, court, tribunal, legislative body, public official, statutory or legal entity (whether autonomous or not), commission, corporation, or instrumentality, whether national or local, of the Republic of the Philippines
Innospec.....	Innospec, Limited
ISO	International Organization for Standardization
JBC.....	JBC Energy
Joint Lead Managers.....	BDO Capital & Investment Corporation, China Banking Corporation, RCBC Capital Corporation, SB Capital Investment Corporation and Standard Chartered Bank
kbd.....	Thousand barrels per day
ktoe.....	Thousand tons of oil equivalent
KLIA.....	Kuala Lumpur International Airport
LGC	Philippine Local Government Code
LGU	Local Government Unit
Limay Refinery	The Company's refinery in Limay, Bataan, Philippines
Listing Date.....	The date when the Preferred Shares are listed in the PSE
LPG	Liquefied petroleum gas
LPS.....	Loss prevention system
LSFO	Low-sulfur fuel oil
LSWR.....	Low-sulfur waxy residue
MARINA	Philippine Maritime Industry Authority

mbd	Million barrels per day
MBIA.....	Malaysian Biofuel Industry Act, 2007
MDOE.....	Malaysian Department of Environment
MDTCC	Malaysian Ministry of Domestic Trade, Cooperative and Consumerism
Mean of Platts Singapore or MOPS	The daily average of all trading transactions between a buyer and a seller of petroleum products as assessed and summarized by Standard and Poor's Platts, a Singapore-based market wire service
MERALCO.....	Manila Electric Company
Metrix Research	Metrix Research Sdn Bhd
MITI	Malaysian Ministry of International Trade and Industry
MNHPI.....	Manila North Harbour Port, Inc.
Mogas 95.....	Formulated unleaded gasoline fuel with an octane index of 95
MPP.....	Multi-product pipeline
MSOSH	Malaysian Society for Occupational Safety and Health
MT	Metric tonnes
NVRC	New Ventures Realty Corporation
OECD	Organization for Economic Cooperation and Development
Offer Period.....	To commence at 9:00 a.m. on [●] and end at 5:00 p.m. on [●], or such other date as may be mutually agreed between the Company and the Joint Lead Managers.
Oil Deregulation Law.....	Philippine Downstream Oil Industry Deregulation Act of 1998
Ovincor	Overseas Ventures Insurance Corporation Ltd.
PAHL.....	Petrochemical Asia (HK) Ltd.
PAL.....	Philippine Airlines, Inc.
PCERP	Petron Corporation Employees' Retirement Plan
PDA	Malaysian Petroleum Development Act, 1974
PDB	Petronas Dagangan Berhad
PDTC	Philippine Depository and Trust Corporation
PetroFCC	Petrofluidized catalytic cracking
Petrogen.....	Petrogen Insurance Corporation
Petronas	Petroliam Nasional Berhad

Petrophil	Petrophil Corporation
PFC	Petron Freeport Corporation
PFI Malaysia	Petron Fuel International Sdn. Bhd.
PFRS.....	Philippine Financial Reporting Standards
Philippines	Republic of the Philippines
Philippine Peso, Peso, PHP or ₱....	Philippine Pesos, the legal currency of the Philippines
PMC	Petron Marketing Corporation
PMRMB	Petron Malaysia Refining & Marketing Berhad
PNOC	Philippine National Oil Company
PNS.....	Philippine National Standards
POM	Petron Oil (M) Sdn. Bhd.
POME	Palm oil methyl ester
Port Dickson Refinery	The Company's refinery in Port Dickson, Malaysia
POS.....	Point of sale
PPI.....	Philippine Polypropylene Inc.
PSE	The Philippine Stock Exchange, Inc.
PSMA	Malaysian Petroleum (Safety Measures) Act, 1984
R.A. 8762	Philippine Retail Trade Liberalization Act of 2000
Registrar, Paying Agent or Stock Transfer Agent	SMC Stock Transfer Service Corporation
Ringgit Malaysia, Ringgit, RM.....	Ringgit Malaysia, the legal currency of Malaysia
RON.....	Research Octane Number
RMP-2	Phase 2 of the Refinery Master Plan
RTC	Regional Trial Court
Saudi Aramco.....	Saudi Arabian Oil Company
SBM.....	Single buoy mooring
SBMI.....	Special Board of Marine Inquiry
SEA BV	SEA Refinery Holdings B.V.
SEC	Philippine Securities and Exchange Commission
Selling Agents	The Trading Participants of the PSE
Shareholders	Holders of Preferred Shares

Shell	Pilipinas Shell Petroleum Corporation
Shell Malaysia	Shell Malaysia Trading Sdn Bhd
SJS.....	Social Justice Society
SMC	San Miguel Corporation
SMS.....	SSHE management system
SRC.....	SEA Refinery Corporation
SSHE.....	Safety, security, health and the environment
Tax Code.....	Philippine National Internal Revenue Code of 1997
TCCs	Tax Credit Certificates
U.S. dollars, USD or US\$.....	U.S. Dollars, the legal currency of the United States of America
U.S.	United States of America
VAT	Value-Added Tax
White Products.....	Diesel, gasoline, jet fuel, kerosene and LPG

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information and the consolidated financial statements of the Company that appear elsewhere in this Prospectus. The meaning of terms not defined in this summary can be found elsewhere in this Prospectus.

Prospective investors should read this entire Preliminary Prospectus fully and carefully, including Investment Considerations and the Company's audited financial statements and the related notes. In case of any inconsistency between this summary and the more detailed information in this Preliminary Prospectus, then the more detailed portions, as the case may be, shall at all times prevail.

Business

Petron Corporation was incorporated under the Philippine Corporation Law and registered with the SEC on December 22, 1966. It has a market capitalisation of ₱109.3 billion as at August 29, 2014.

The Company refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, the Company is the largest integrated oil refining and marketing company, with an overall market share of 36.5% of the Philippine oil market in 2013 in terms of sales volume per Company estimates based on Company information and data from the Philippine Department of Energy ("DOE"). The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream business in that country. The Company had a 16.4% share of the Malaysian retail market for the six months ended June 30, 2014, per Company estimates based on Company information and data from Metrix Research Sdn Bhd ("Metrix Research"), a market research consultant appointed by Malaysian retail market participants to compile the industry data.

The Company's ISO 14001-certified Limay Refinery in Limay, Bataan in the Philippines (the "Limay Refinery"), which has a crude oil distillation capacity of 180,000 barrels per day ("bpd"), processes crude oil into a full range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, fuel oil and petrochemical feedstocks such as benzene, toluene, mixed xylene and propylene. In the fourth quarter of 2010, the Company launched Phase 2 of the Refinery Master Plan ("RMP-2") for the Limay Refinery, a US\$2 billion investment project that will enable the Limay Refinery to further enhance its operational efficiencies and convert its current fuel oil production into White Products (i.e., diesel, gasoline, jet fuel, kerosene and LPG), significantly increase the Company's production of petrochemicals, and make the Company the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard. RMP-2 is expected to be completed by end 2014.

From the Limay Refinery, the Company moves its products, mainly by sea, to more than 30 depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network in the Philippines. The network comprises of 12 depots and terminals in Luzon, eight in Visayas and seven in Mindanao, as well as two airport installations in Luzon, one in Visayas and two in Mindanao. The Company also has presence in airport installations in Palawan and Pampanga in Luzon, Aklan, Malay Aklan and Iloilo City in Visayas, as well as in General Santos City and Zamboanga City in Mindanao. Through this nationwide network, the Company supplies its various petroleum products such as gasoline, diesel, fuel oil, and LPG to its customers. The Company also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

Through its network of close to 2,200 retail service stations in the Philippines as of June 30, 2014, the Company sells gasoline, diesel and kerosene to motorists and to the public transport sector. The

Company also sells its LPG brands “*Gasul*” and “*Fiesta Gas*” to households and other consumers through its extensive dealership network.

The Company also manufactures lubricants and greases through its blending plant in Pandacan in the Philippines, and these are sold through the Company’s service stations and sales centers. The Company owns and operates a fuel additives blending plant in the Subic Bay Freeport Zone in the Philippines, which has a tolling agreement with Innospec Limited (“Innospec”), a global fuel additives supplier. Regional customers of Innospec and the Company’s own requirements are served from the output of the Subic plant.

In recent years, the Company has diversified into petrochemicals, adding a mixed xylene recovery unit to the Limay Refinery in 2000 and a propylene recovery unit in 2008. Its benzene-toluene extraction unit became operational in May 2009. In March 2010, the Company acquired a 40% stake in Petrochemical Asia (HK) Ltd. (“PAHL”), owner of Philippine Polypropylene Inc. (“PPI”). As of end-2013, the Company had a 45.9% stake in PAHL. PPI operated a polypropylene plant located in Mariveles, Bataan in the Philippines. On July 1, 2014, PPI’s polypropylene business was acquired by the Company to enhance efficiency.

On March 30, 2012, the Company completed its acquisition of ExxonMobil’s integrated downstream business in Malaysia for an aggregate purchase price of US\$577.3 million. With this acquisition, the Company has extended its portfolio of oil refining and marketing businesses outside the Philippines as it became the owner and operator of an 88,000 bpd refinery in Port Dickson, Negeri Sembilan in Malaysia (the “Port Dickson Refinery”), eight product terminals and a network of approximately 550 retail service stations in Malaysia, which are being rebranded under the *Petron* brand, a process that is expected to be completed in the first quarter of 2015. As of end June 2014, the Company has a network of approximately 560 service stations, including 10 newly-built service stations under the *Petron* brand.

The Company’s products are primarily sold to customers in the Philippines and Malaysia. The Company also exports various petroleum products and petrochemical feedstocks, including low-sulfur waxy residue, fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

In the first six months of 2014, the Company’s sales were ₱258.2 billion, compared with ₱218.8 billion in the first six months of 2013. The Company’s net income in the first six months of 2014 was ₱3.0 billion, compared with ₱1.1 billion in the first six months of 2013.

The Company’s common shares and preferred shares are listed for trading on the PSE under the symbols “PCOR” and “PPREF,” respectively.

Strengths

The Company believes that its principal competitive strengths include the following:

- Operations in markets with favorable industry dynamics;
- Market leadership in the Philippine downstream sector;
- Established position in the Malaysian market;
- Geared towards the production of high margin products; and
- Strong principal shareholder in San Miguel Corporation.

Areas of Strategic Focus

The Company's principal strategies are set out below:

- Further increase its market share in the Philippines and in Malaysia;
- Focus on production of high margin refined products and petrochemicals;
- Continue investments to increase operational efficiencies and widen market reach; and
- Selective synergistic acquisitions.

Recent Developments

The Board of Trustees of the Petron Corporation Employees' Retirement Plan ("PCERP"), a shareholder of the Company, sold to the public its holdings of 380,000,000 common shares of the Company representing 4.05% of the Company's total outstanding common shares through the facilities of the PSE, pursuant to a Placement Agreement dated August 18, 2014. The sale brings down PCERP's ownership of the Company's total outstanding common shares from 9.77% to 5.72%. Correspondingly, the percentage of common shares held by the public rose from 21.97% to 26.02%.

Risks Relating to the Offer

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Shares. These risks include the following, which are discussed in more detail under the section "Risk Factors" starting on page 36:

Risks Relating to the Company's Business and Operations

- Volatility of the price of crude oil may have a material adverse effect on the Company's business, results of operations and financial condition;
- The Company relies primarily on a single source of supply for a significant portion of its crude oil requirements in each of the Philippines and Malaysia;
- The Company's business, financial condition and results of operations may be adversely affected by intense competition;
- The Company's business strategies require significant capital expenditures and financing, which are subject to a number of risks and uncertainties, and its financial condition and results of operations may be adversely affected by its debt levels;
- Any significant disruption in operations or casualty loss at the Company's refineries could adversely affect its business and results of operations and result in potential liabilities;
- The Company may fail to integrate acquired businesses properly, which could adversely affect the Company's results of operations and financial condition;
- Failure to respond quickly and effectively to product substitution or government-mandated product formulations may adversely affect the Company's business and prospects;
- The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products, including price controls, subsidies and quotas;
- Continued compliance with safety, health, environmental and zoning laws and regulations may adversely affect the Company's results of operations and financial condition;
- Changes in applicable taxes, duties and tariffs could increase the Company's operating costs and adversely affect its business, results of operations and financial condition;
- The Company may be adversely impacted by the fluctuations in the value of the Philippine Peso and the Ringgit Malaysia against the U.S. dollar;
- The Company depends on certain key personnel, and its business and growth prospects may be disrupted if their services were lost;
- The Company's controlling shareholder may have interests that may not be the same as those of other shareholders; and
- If the number or severity of claims for which the Company is self-insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than

its recorded liabilities, the Company's financial condition and results of operations may be materially adversely affected.

Risks Relating to the Philippines and Malaysia

- The Company's business and sales may be negatively affected by slow growth rates and economic instability in the Philippines and Malaysia, as well as globally;
- Political instability, acts of terrorism or military conflict in the Philippines or Malaysia could have a destabilizing effect and may have a negative effect on the Company;
- The occurrence of natural catastrophes or electricity blackouts may materially disrupt the Company's operations;
- Investors may face difficulties enforcing judgments against the Company; and
- If foreign exchange controls were to be imposed, the Company's ability to access foreign currency to purchase raw materials and equipment and to service foreign currency denominated debt obligations could be adversely affected.

Risks Relating to the Shares

- The Preferred Shares may not be a suitable investment for all investors;
- The Preferred Shares are perpetual securities and investors have no right to require redemption;
- The Preferred Shares are subordinated obligations;
- There may be insufficient distributions upon liquidation;
- Holders may not receive dividend payments if the Company elects to defer dividend payments;
- The ability of the Company to make payments under the Shares is limited by the terms of the Company's other indebtedness;
- There may be a lack of public market for the Preferred Shares;
- An active or liquid trading market for the Preferred Shares may not develop;
- Holders of the Preferred Shares may not be able to reinvest at a similar return on investment; and
- The Preferred Shares have no voting rights.

Corporate Information

Petron Corporation was incorporated under the laws of the Philippines in 1966. The Company's head office and principal place of business is located at the SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Philippines. The Company's telephone number at this location is (632) 886-3888. The Company's primary website is www.petron.com. Information contained on the Company's website does not constitute a part of this Prospectus. The Company's common and preferred shares are listed and traded on PSE under the symbols "PCOR" and "PPREF", respectively.

SUMMARY FINANCIAL INFORMATION

The following tables set forth summary financial information for the Company and should be read in conjunction with the auditors' reports and the Company's consolidated financial statements, including the notes thereto, and the section entitled "Management's Discussion and Analysis of Financial Position and Results of Operations" found on page 129 of this Prospectus.

The summary financial information presented below for the years ended December 31, 2011, 2012 and 2013 were derived from the consolidated financial statements of the Company, audited by R.G. Manabat and Co., a member firm of KPMG. The summary financial information for the six months ended June 30, 2013 and 2014 were derived from the unaudited condensed consolidated interim financial statements of the Company, reviewed by R.G. Manabat and Co., a member firm of KPMG. The Company's financial information included in this Prospectus has been prepared in accordance with PFRS.

Summary Consolidated Statements of Income Data

	Audited			Unaudited	
	For the years ended			For the six months	
	December 31			ended June 30	
(Amounts in millions of ₱, except per share data)	2011	2012	2013	2013	2014
Sales	273,956	424,795	463,638	218,781	258,230
Cost of goods sold	251,610	406,798	440,479	209,293	246,559
Gross profit	22,346	17,997	23,159	9,488	11,671
Selling and administrative expenses	(7,229)	(10,137)	(11,475)	(5,185)	(5,805)
Interest expense and other financing charges	(5,124)	(7,508)	(5,462)	(3,431)	(2,605)
Interest income	1,380	1,121	1,285	682	453
Share in net income (losses) of associates	(137)	(11)	110	29	45
Other income (expenses) – net	521	777	(675)	(193)	285
Income before tax	11,757	2,239	6,942	1,390	4,044
Income tax expense	2,827	459	1,850	263	1,030
Net income	8,930	1,780	5,092	1,127	3,014
Attributable to:					
Equity holders of the Parent Company	8,914	1,701	5,247	1,168	3,138
Non-controlling interests	16	79	(155)	(41)	(124)

Basic/diluted earnings per
common share attributable to
equity holders of the Parent
Company

P0.82

P0.08

P0.28

P0.07

P0.09

Summary Consolidated Statements of Comprehensive Income

	Audited			Unaudited	
	For the years ended			For the six months	
	December 31			ended June 30	
<i>(Amounts in millions of ₪)</i>	2011	2012	2013	2013	2014
Net income	8,930	1,780	5,092	1,127	3,014
Other comprehensive income (loss)					
Items that will not be reclassified to profit or loss					
Equity reserve for retirement plan	(1,750)	(3,086)	3,232	-	-
Income tax benefit (expense)	525	914	(957)	-	-
	(1,225)	(2,172)	2,275	-	-
Items that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	(12)	(1,214)	589	593	130
Unrealized fair value gains (losses) on available-for-sale financial assets	(1)	7	(31)	(23)	(14)
Income tax benefit	-	3	2	2	2
	(13)	(1,204)	560	572	118
Other comprehensive income (loss)	(1,238)	(3,376)	2,835	572	118
Total comprehensive income (loss) for the year	7,692	(1,596)	7,927	1,699	3,132
Attributable to:					
Equity holders of the Parent Company	7,676	(868)	6,971	1,022	3,440
Non-controlling interests	16	(728)	956	677	(308)
	7,692	(1,596)	7,927	1,699	3,132

Summary Consolidated Statements of Financial Position Data

	Audited			Unaudited
	As of December 31			As of the six months ended June 30
<i>(Amounts in millions of ₪)</i>	2011	2012	2013	2014
Current assets:				
Cash and cash equivalents	23,823	26,965	50,398	43,078
Financial assets at fair value through profit or loss	237	186	783	339
Available-for-sale financial assets	-	51	458	396
Trade and other receivables – net	26,605	57,731	67,667	68,427
Inventories	37,763	49,582	51,721	61,635
Other current assets	8,178	10,750	12,933	16,566
	<u>96,606</u>	<u>145,265</u>	<u>183,960</u>	<u>190,441</u>
Assets held for sale	10	588	-	-
Total current assets	<u>96,616</u>	<u>145,853</u>	<u>183,960</u>	<u>190,441</u>
Noncurrent assets:				
Available-for-sale financial assets	1,036	860	457	131
Property, plant and equipment – net	50,446	104,111	141,647	150,097
Investments in associates	2,505	1,641	885	930
Investment property – net	794	115	114	114
Deferred tax assets	15	78	162	173
Goodwill	-	9,032	9,386	9,453
Other noncurrent assets - net	<u>27,710</u>	<u>18,643</u>	<u>20,847</u>	<u>11,561</u>
Total noncurrent assets	<u>82,506</u>	<u>134,480</u>	<u>173,498</u>	<u>172,459</u>
Total assets	<u><u>179,122</u></u>	<u><u>280,333</u></u>	<u><u>357,458</u></u>	<u><u>362,900</u></u>

Current liabilities:

Short-term loans	40,593	99,735	100,071	105,625
Liabilities for crude oil and petroleum product importation	13,842	24,960	38,707	38,241
Trade and other payables	7,381	14,867	29,291	30,098
Derivative liabilities	55	245	152	316
Income tax payable	78	52	194	301
Current portion of long-term debt – net	4,124	73	8,155	2,864
Total current liabilities	<u>66,073</u>	<u>139,932</u>	<u>176,570</u>	<u>177,445</u>

	Audited			Unaudited
	As of			As of the six
	December 31			months ended
	2011	2012	2013	June 30
	2011	2012	2013	2014
Noncurrent liabilities:				
Long-term debt – net of current portion	45,744	55,940	58,032	65,810
Retirement benefits liability	4	983	820	851
Deferred tax liabilities	3,017	3,143	4,605	5,005
Asset retirement obligation	1,061	997	1,004	1,005
Other noncurrent liabilities	740	2,435	4,539	967
Total noncurrent liabilities	50,566	63,498	69,000	73,638
Total liabilities	116,639	203,430	245,570	251,083
Equity attributable to equity holders of the Parent Company				
Capital stock	9,475	9,475	9,475	9,475
Additional paid-in capital	9,764	9,764	9,764	9,764
Undated subordinated capital securities	-	-	30,546	30,546
Retained earnings	40,695	40,507	42,658	43,272
Reserve for retirement plan	2,189	10	2,242	2,242
Other reserves	70	(201)	(721)	(419)
Total equity attributable to equity holders of the Parent Company	62,193	59,555	93,964	94,880
Non-controlling interests	290	17,348	17,924	16,937
Total equity	62,483	76,903	111,888	111,817
Total liabilities and equity	179,122	280,333	357,458	362,900

Summary of Consolidated Cash Flows Data

	Audited			Unaudited	
	For the years ended			For the six months	
	December 31			ended June 30	
<i>(Amounts in millions of ₦)</i>	2011	2012	2013	2013	2014
Net cash flows provided by (used in) operating activities	790	1,854	33,752	12,759	(15,826)
Net cash flows provided by (used in) investing activities	(22,637)	(63,681)	(43,329)	(33,945)	3,415
Net cash flows provided by financing activities	1,658	65,407	32,539	37,856	5,231
Effect of exchange rate changes on cash and cash equivalents	28	(438)	471	273	(140)
Net increase (decrease) in cash and cash equivalents	(20,161)	3,142	23,433	16,943	(7,320)
Cash and cash equivalents at beginning of period	43,984	23,823	26,965	26,965	50,398
Cash and cash equivalents at end of period	<u>23,823</u>	<u>26,965</u>	<u>50,398</u>	<u>43,908</u>	<u>43,078</u>

SUMMARY OF THE OFFERING

The following do not purport to be a complete listing of all the rights, obligations and privileges of the Preferred Shares. Some rights, obligations or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective shareholders are enjoined to perform their own independent investigation and analysis of the Issuer and the Preferred Shares. Each prospective shareholder must rely on its own appraisal of the Issuer and the proposed financing and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to participate in the proposed financing and must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective shareholder's independent evaluation and analysis.

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Preferred Shares. Accordingly, any decision by a prospective investor to invest in the Preferred Shares should be based on a consideration of this Prospectus as a whole. Should there be any inconsistency between the summary below and the final documentation, the final documentation shall prevail.

Issuer	Petron Corporation
Offer Size	₱7.0 billion (subject to the Over-Subscription Option as provided below)
Instrument	Cumulative, non-voting, non-participating, non-convertible peso-denominated perpetual preferred shares. The Preferred Shares will be issued in one or more Series – Series 2A and Series 2B.
Over-Subscription Option	In the event of an oversubscription, the Joint Lead Managers in consultation with the Issuer, reserve the right to increase the Offer Size by up to ₱3.0 billion, subject to the registration requirements of the SEC.
Registration and Listing	To be registered with the SEC and listed on the PSE, subject to compliance with SEC regulations and PSE listing rules
Use of Proceeds	To redeem the ₱10 billion Outstanding Preferred Shares which are callable starting on March 5, 2015 or on any Dividend Payment Date thereafter.
Par Value	The Preferred Shares shall have a par value of ₱1.00 per share.
Offer Price	The Preferred Shares shall be offered at a price of ₱1,000.00 per share.
Dividend Rate	As and if cash dividends are declared by the Board of Directors, cash dividends on the Preferred Shares shall be at the fixed rate of:

	<ul style="list-style-type: none"> • Series 2A: [•]% per annum; • Series 2B: [•]% per annum; <p>in all cases calculated for each share by reference to the Offer Price thereof in respect of each Dividend Period (each, the “Initial Dividend Rate” for the relevant series).</p> <p>Dividend Rate means (a) from the Listing Date up to the Step Up Date, the Initial Dividend Rate, and (b) from the Step Up Date, the higher of the Initial Dividend Rate and the Step Up Rate. (Please see below relevant definitions.)</p>
Dividend Rate Step-Up	<p>Unless the Preferred Shares shall have been redeemed by the Company on the applicable Optional Redemption Dates (as defined below under “Optional Redemption and Purchase”), the Initial Dividend Rate shall be adjusted to:</p> <p>(a) for Series 2A, on the fifth anniversary from the Listing date of the Series 2A Preferred Shares, the 7-year PDST-R2 rate, or if the 7-year PDST-R2 rate is not available or cannot be determined, any such successor rate generally accepted by the market or a self-regulatory organization, in each case, plus 150% of the Initial Spread for Series 2A Preferred Shares; and</p> <p>(b) for Series 2B, on the seventh anniversary from the Listing date of the Series 2B Preferred Shares, the 10-year PDST-R2 rate, or if the 10-year PDST-R2 rate is not available or cannot be determined, any such successor rate generally accepted by the market or a self-regulatory organization, in each case, plus 150% of the Initial Spread for Series 2B Preferred Shares.</p> <p>(The Listing date of the Series 2A Preferred Shares and the Series 2B Preferred Shares are each referred to as a “Listing Date”. The fifth anniversary from the Listing Date referred to in (a) and the seventh anniversary from the Listing Date referred to in (b) are each referred to as a “Step Up Date”. The adjusted rates referred to in (a) and (b) are each referred to as a “Step Up Rate”.)</p> <p>However, if the Initial Dividend Rate is higher than the applicable Step Up Rate, there shall be no adjustment on the Dividend Rate, and the Initial Dividend Rate shall continue to be the Dividend Rate.</p>
Initial Spread	<p>The Initial Spread shall be computed as the difference between the Initial Dividend Rate for each Series of the Preferred Shares and the respective PDST-R2 benchmark rate on pricing date.</p>
Dividend Payment Dates	<p>Dividends will be payable in cash on [•], [•], [•], and [•] of each year, each Dividend Payment Date, being the last day of each Dividend Period following the relevant Listing Date,</p>

	<p>as and if declared by the Board of Directors in accordance with the terms and conditions of the Preferred Shares.</p> <p>The dividends on the Preferred Shares will be calculated on a 30/360-day basis.</p> <p>If the Dividend Payment Date is not a Banking Day, dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of dividends to be paid.</p>
<p>Conditions on Declaration and Payment of Cash Dividends</p>	<p>The declaration and payment of cash dividends on each Dividend Payment Date will be subject to the sole and absolute discretion of the Board of Directors to the extent permitted by applicable laws and regulations, and will be subject to the covenants (financial or otherwise) in the agreements to which the Company is a party.</p> <p>The Board of Directors will not declare and pay dividends on any Dividend Payment Date where payment of the dividend would cause the Company to breach any of its financial covenants.</p> <p>If in the opinion of the Board of Directors, the Company will not be in a position to pay in full the dividends on the Preferred Shares and the dividends or distributions on any Parity Securities falling due within a six-month period from any Dividend Payment Date, the Company shall either (a) not declare the dividends on the Preferred Shares and defer the payment of such dividends or distributions on any Parity Securities, or (b) pay such dividends on the Preferred Shares and the dividends or distributions on any Parity Securities <i>pro rata</i> to the amount of the dividends or distributions scheduled to be paid to them within the said period. The amount scheduled to be paid will include the amount of any dividend or distribution due and payable within the said period and any arrears on past cumulative dividends or any deferred distributions.</p>
<p>Optional Redemption and Purchase</p>	<p>As and if approved by the Board of Directors (or the Executive Committee), the Company may redeem the Preferred Shares on the following dates (each an "Optional Redemption Date), or on any Dividend Payment Date thereafter, in whole but not in part, at a redemption price (the "Redemption Price") equal to the relevant Issue Price of the Preferred Shares plus all dividends due them on such Optional Redemption Date as well as all accumulated dividends due and payable, or dividends in which the declaration and/or payment have been deferred, in respect of prior Dividend Periods ("Arrears of Dividends"):</p> <ul style="list-style-type: none"> (i) for Series 2A, the fifth anniversary from the relevant Listing Date; and (ii) for Series 2B, the seventh anniversary from the relevant Listing Date.

	<p>On the applicable Optional Redemption Date, the Company has the option to redeem, without preference or priority, in whole but not in part, any or both of the Series.</p> <p>The Company may also redeem the Preferred Shares, in whole but not in part, at any time prior to any Optional Redemption Date if an Accounting Event or a Tax Event (each as defined below) has occurred and is continuing, having given not more than 60 nor less than 30 days' notice prior to the intended date of redemption. The redemption due to an Accounting Event or a Tax Event shall be made by the Company at the Redemption Price which shall be paid within [five] Banking Days of the exercise of the right to redeem the Preferred Shares. Upon listing on the PSE, the Company may purchase the Preferred Shares at any time in the open market or by public tender or by private contract at any price through the PSE. The Preferred Shares so purchased may either be redeemed and cancelled (after the Optional Redemption Date) or kept as treasury shares, as applicable.</p>
No Sinking Fund	The Company is not legally required, has not established, and currently has no plans to establish, a sinking fund for the redemption of the Preferred Shares.
Accounting Event	An accounting event ("Accounting Event") shall occur if an opinion of a recognized accountancy firm authorized to perform auditing services in the Republic of the Philippines has been delivered to the Company stating that the Preferred Shares may no longer be recorded as equity in the audited consolidated financial statements of the Company prepared in accordance with PFRS, or such other accounting standards which succeed PFRS as adopted by the Company for the preparation of its audited consolidated financial statements for the relevant financial year and such event cannot be avoided by the Company taking reasonable measures available to it.
Tax Event	A tax event ("Tax Event") shall occur if payments on the Preferred Shares become subject to additional or higher withholding tax or any new tax (including a higher rate of an existing tax) as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to the Company.

Taxation	<p>All payments in respect of the Preferred Shares are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including, but not limited to, stamp, issue, registration, documentary, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the Company will pay additional amounts so that holders of the Preferred Shares will receive the full amount of the relevant payment which otherwise would have been due and payable. Provided, however, that the Company shall not be liable for, and the foregoing payment undertaking of the Company shall not apply to:</p> <ul style="list-style-type: none"> (a) the final withholding tax applicable on dividends earned on the Preferred Shares as prescribed under the National Internal Revenue Code of 1997; (b) any income tax, whether or not subject to withholding; (c) any expanded value added tax which may be payable by any holder of the Preferred Shares on any amount to be received from the Company under the terms and conditions of the Preferred Shares; (d) any withholding tax on any amount payable to any holder of Preferred Shares or any entity which is a non-resident foreign corporation; and (e) any applicable taxes on any subsequent sale or transfer of the Preferred Shares by any holder of the Preferred Shares which shall be for the account of the said holder (or the buyer in case such buyer shall have agreed to be responsible for the payment of such taxes). <p>All sums payable by the Company to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments or governmental charges provided said entities present sufficient proof of such tax-exempt status from the tax authorities.</p> <p>Documentary stamp tax for the primary issue of the Preferred Shares and the documentation, if any, shall be for the account of the Company.</p>
Form, Title and Registration of the Preferred Shares	The Preferred Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as Registrar for the Offer, and

	<p>lodged with Philippine Depository and Trust Corporation as Depository Agent on Listing Date through PSE Trading Participants nominated by the accepted Applicants. For this purpose, applicants shall indicate in the proper space provided for in the Application Form (as defined below under "Offer Period") the name of a PSE trading participant under whose name their shares will be registered.</p> <p>After Listing Date, shareholders may request the Registrar, through their nominated PSE trading participant, to (a) open a scripless registry account and have their holdings of the Preferred Shares registered under their name, or (b) issue stock certificates evidencing their investment in the Preferred Shares. Any expense that will be incurred in relation to such registration or issuance shall be for the account of the requesting shareholder.</p> <p>Legal title to the Preferred Shares will be shown in an electronic register of shareholders (the "Registry of Shareholders") which shall be maintained by the Registrar. The Registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Preferred Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The Registrar shall send (at the cost of the Company) at least once every [quarter] a statement of account to all shareholders named in the Registry of Shareholders confirming the number of shares held by each shareholder on record in the Registry of Shareholders. Such statement of account shall serve as evidence of ownership of the relevant shareholder as of the given date thereof. Any request by shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting shareholder.</p>
Selling and Transfer Restrictions	Initial placement and subsequent transfers of interests in the Preferred Shares shall be subject to normal selling restrictions for listed securities as may prevail in the Philippines from time to time.
Governing Law	The Preferred Shares will be issued pursuant to the laws of the Republic of the Philippines.
Features of the Preferred Shares	
Status	<p>The Preferred Shares will constitute the direct and unsecured subordinated obligations of the Company ranking at least <i>pari passu</i> in all respects and ratably without preference or priority among themselves. The Preferred Shares will rank at all times <i>pari passu</i> with the US\$750 million Undated Subordinated Capital Securities of the Company issued in 2013 ("Capital Securities") and any other Parity Securities issued by the Company.</p> <p>The obligations of the Company in respect of the Preferred Shares will, in the event of the winding-up of the Company</p>

	<p>(subject to and to the extent permitted by applicable law), rank:</p> <ul style="list-style-type: none"> (a) junior to all unsubordinated obligations of the Company (other than Parity Securities) and any obligation assumed by the Company under any guarantee of, or any indemnity in respect of, any obligation or commitment which rank or are expressed to rank senior to the Preferred Shares; (b) <i>pari passu</i> with each other and with any Parity Securities of the Company; and (c) senior only to the Company's Junior Securities. <p>"Parity Securities" means: (i) the Capital Securities; (ii) any instrument, security (including preferred shares) or obligation issued or entered into by the Company which ranks, or is expressed to rank, by its terms or by operation of law, <i>pari passu</i> with the Preferred Shares; (iii) any security guaranteed by, or subject to the benefit of an indemnity entered into by, the Company where the Company's obligations under the relevant guarantee or indemnity rank, or are expressed to rank, <i>pari passu</i> with the Company's obligations under the Preferred Shares; and (iv) the 100,000,000 preferred shares (ISIN PHY6885F1141) of the Company issued and outstanding as of the Listing Date.</p> <p>"Junior Securities" means the common shares of the Company and (i) any instrument, security or obligation issued or entered by the Company which ranks, or is expressed to rank, junior to the Preferred Shares; and (ii) any security guaranteed by, or subject to the benefit of an indemnity entered into by, the Company where the Company's obligations under the relevant guarantee or indemnity rank, or are expressed to rank, junior to the Company's obligations under the Capital Securities.</p>
Dividend Cumulative	Dividends on the Preferred Shares will be cumulative. If for any reason the Board of Directors of the Company does not declare a dividend on the Preferred Shares for a Dividend Period, the Company will not pay a dividend on the Dividend Payment Date for that Dividend Period. However, on any

	<p>future Dividend Payment Date on which dividends are declared, holders of the Preferred Shares must receive the dividends due them on such Dividend Payment Date as well as all Arrears of Dividends.</p> <p>Holders of the Preferred Shares shall not be entitled to participate in any other or further dividends beyond the dividends specifically payable on the Preferred Shares.</p> <p>The Company will covenant that, in the event (for any reason):</p> <ul style="list-style-type: none"> (a) any dividends due with respect to any Preferred Shares then outstanding for any period are not declared and paid in full when due; (b) where there remains Arrears of Dividends; or (c) any other amounts payable in respect of the Preferred Shares are not paid in full when due, <p>then the Company will not:</p> <ul style="list-style-type: none"> (i) declare or pay any dividends or other distributions in respect of Parity Securities and Junior Securities (unless such declaration or payment of dividends or distributions in respect of Parity Securities shall be in accordance with “Conditions on Declaration and Payment of Cash Dividends”), or (ii) repurchase or redeem any Parity Securities or Junior Securities (or contribute any moneys to a sinking fund for the redemption of any Parity Securities or Junior Securities), <p>until any and all amounts described in (a), (b) and (c) have been paid to the holders of the Preferred Shares.</p>
No Voting Rights	Holders of the Preferred Shares shall not be entitled to vote at the Company’s stockholders’ meetings, except as otherwise provided by law.
Non-Participating	Holders of the Preferred Shares shall not be entitled to participate in any other or future dividends beyond the dividends specifically payable on the Preferred Shares.
Non-Convertible	Holders of the Preferred Shares shall have no right to convert the Preferred Shares to any other preferred shares or common shares of the Company.
No Pre-emptive Rights	Holders of the Preferred Shares shall have no pre-emptive rights to subscribe to any shares (including, without limitation, treasury shares) that will be issued or sold by the Company.

Liquidation Rights	<p>In the event of a return of capital in respect of the Company's winding up or otherwise (whether voluntarily or involuntarily) but not on a redemption or purchase by the Company of any of its share capital, the holders of the Preferred Shares at the time outstanding will be entitled to receive, in Philippine Pesos out of the assets of the Company available for distribution to shareholders, together with the holders of any other shares of the Company ranking, as regards repayment of capital, <i>pari passu</i> with the Preferred Shares and before any distribution of assets is made to holders of any class of the shares of the Company ranking after the Preferred Shares as regards repayment of capital, liquidating distributions in an amount equal to the Issue Price of the Preferred Shares plus an amount equal to any dividends declared but unpaid in respect of the previous dividend period and any accrued and unpaid dividends for the then-current dividend period to (and including) the date of commencement of the winding up of the Company or the date of any such other return of capital, as the case may be. If, upon any return of capital in the winding up of the Company, the amount payable with respect to the Preferred Shares and any other shares of the Company ranking as to any such distribution <i>pari passu</i> with the Preferred Shares is not paid in full, the holders of the Preferred Shares and of such other shares will share ratably in any such distribution of the assets of the Company in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Preferred Shares will have no right or claim to any of the remaining assets of the Company and will not be entitled to any further participation or return of capital in a winding up.</p>
Other Terms of the Offer	
Offer Period	<p>The Offer Period shall commence at 9:00 a.m. on [•] and end at 5:00 p.m. on [•]. The Company and the Joint Lead Managers reserve the right to extend or terminate the Offer Period with the approval of the SEC and the PSE.</p>
Minimum Subscription to the Preferred Shares	<p>Each Application shall be for a minimum of [•] Preferred Shares, and thereafter, in multiples of [•] Preferred Shares. No Application for multiples of any other number of Preferred Shares will be considered.</p>
Eligible Investors	<p>The Preferred Shares may be owned or subscribed to by any person, partnership, association or corporation regardless of nationality, provided that the Company may reject an Application or reduce the number of Shares applied for subscription or purchase for purposes of complying with any applicable constitutional or statutory minimum Filipino ownership requirement. In determining compliance with such nationality requirement, the required percentage of Filipino ownership shall be applied to both (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of</p>

	<p>outstanding shares of stock, whether or not entitled to vote in the election of directors, as set out in applicable regulations.</p> <p>Law may restrict subscription to the Preferred Shares in certain jurisdictions. Foreign investors interested in subscribing to or purchasing the Preferred Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Preferred Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Preferred Shares.</p>
<p>Procedure for Application</p>	<p>Application Forms for the subscription of Preferred Shares may be obtained from any of the Joint Lead Managers or Selling Agents. All applications shall be evidenced by the Application Form, duly executed in each case by the applicant or an authorized signatory of the applicant and accompanied by two (2) completed signature cards, the corresponding payment for the Preferred Shares covered by the Application Form and all other required documents including documents required for registry with the Registrar and Depository Agent ("Application"). The duly executed Application Form and required documents should be submitted to the Joint Lead Managers or Selling Agents on or prior to the set deadlines for submission of Applications to Joint Lead Managers and Selling Agents, respectively. If the applicant is a corporation, partnership, or trust account, the Application must be accompanied by the following documents:</p> <ul style="list-style-type: none"> a. a certified true copy of the applicant's latest articles of incorporation and by-laws and other constitutive documents, each as amended to date, duly certified by the corporate secretary (or equivalent officer); b. a certified true copy of the applicant's SEC certificate of registration, duly certified by the corporate secretary (or equivalent officer); and c. a duly notarized corporate secretary's certificate setting forth the resolution of the applicant's board of directors or equivalent body authorizing (i) the purchase of the Preferred Shares indicated in the Application and (ii) the designated signatories authorized for the purpose, including their respective specimen signatures.
<p>Payment for the Preferred Shares</p>	<p>The Preferred Shares must be paid for in full upon submission of the Application.</p>

Acceptance/Rejection of Applications	<p>The actual number of Preferred Shares that an Applicant will be allowed to subscribe for is subject to the confirmation of the Joint Lead Managers. The Company reserves the right to accept or reject, in whole or in part, or to reduce any Application due to any grounds specified in the Underwriting Agreement to be entered into by the Company and the Joint Lead Managers. Applications which were unpaid or where payments were insufficient and those that do not comply with the terms of the Offer shall be rejected. Moreover, any acceptance or receipt of payment pursuant to the Application does not constitute approval or acceptance by the Company of the Application.</p> <p>An Application, when accepted, shall constitute an agreement between the Applicant and the Company for the subscription to the Preferred Shares at the time, in the manner and subject to terms and conditions set forth in the Application Form and those described in the Prospectus. Notwithstanding the acceptance of any Application by the Company, the actual subscription by the Applicant for the Preferred Shares will become effective only upon listing of the Preferred Shares on the PSE and upon the obligations of the Co-Managers under the Underwriting Agreement becoming unconditional and not being suspended, terminated or cancelled, on or before the Listing Date, in accordance with the provision of the said agreement. If such conditions have not been fulfilled on or before the periods provided above, all Application payments will be returned to the Applicants without interest.</p>
Refunds for Rejected Applications	<p>In the event that the number of Preferred Shares to be allotted to an Applicant, as confirmed by a Joint Lead Manager or Selling Agent, is less than the number covered by its Application, or if an Application is wholly or partially rejected by the Company, then the Company shall refund, without interest, within five (5) Banking Days from the end of the Offer Period, all, or the portion of the payment corresponding to the number of Preferred Shares wholly or partially rejected. All refunds shall be made through the Joint Lead Manager or Selling Agent with whom the Applicant has filed the Application at the Applicant's risk.</p>
Listing Date	[•]
Global Coordinator	Standard Chartered Bank
Joint Lead Managers	<p>BDO Capital and Investment Corporation, China Banking Corporation, RCBC Capital Corporation, SB Capital Investment Corporation, and Standard Chartered Bank and other banks as may be appointed.</p> <p>Other Co-Managers as may also be appointed.</p>

Selling Agents	Trading Participants of the Philippine Stock Exchange
Depository Agent	Philippine Depository and Trust Corp.
Registrar and Paying Agent	SMC Stock Transfer Service Corporation
Counsel to the Issuer	Picazo Buyco Tan Fider & Santos
Counsel to Joint Lead Managers	SyCip Salazar Hernandez & Gatmaitan

DESCRIPTION OF THE PREFERRED SHARES

Set forth below is information relating to the Preferred Shares. This description is only a summary and is qualified by reference to Philippine law and Petron's Articles of Incorporation and By-laws, copies of which are available at the SEC.

Petron's Share Capital

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in the articles of incorporation and the by-laws of the corporation.

As of June 30, 2014, the Company had an authorized capital stock consisting of:

- (a) 9,375,104,497 common shares with a par value of ₱1.00 per share issued and outstanding, and
- (b) 624,895,503 preferred shares with a par value of ₱1.00 per share, of which 100,000,000 preferred shares are issued and outstanding.

THE PREFERRED SHARES

General Features

The Preferred Shares shall have the following features, rights and privileges:

- The Offer Price of the Preferred Shares will be determined at the time of issuance;
- The dividend rate of the Preferred Shares will be determined at the time of issuance;
- Cumulative in payment of current dividends as well as any unpaid back dividends;
- Non-convertible into common shares;
- Preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation of the Company and in the payment of the dividend at the rate specified at the time of issuance;
- Non-participating in any other or further dividends beyond the dividends specifically payable on the Preferred Shares;
- Non-voting except in those cases specifically provided by law;
- No pre-emptive rights to any subsequent issue of the Company's shares; and
- Redeemable at the option of the Company under such terms as the Board may approve at the time of the issuance of the Preferred Shares.

The holders of the Preferred Shares do not have identical rights and privileges with holders of the existing common shares of the Company.

Features Specific or Particular to the Preferred Shares

Following are certain features specific or particular to the Preferred Shares.

In General: No Voting Rights

The Preferred Shares shall have no voting rights except as specifically provided by the Corporation Code. Thus, holders of the Preferred Shares shall not be eligible, for example, to vote for or elect the Company's Directors or to vote for or against the issuance of a stock dividend. Holders of Preferred Shares, however, may vote on matters which the Corporation Code considers significant corporate acts that may be implemented only with the approval of shareholders, including those holding shares denominated as non-voting in the articles of incorporation. These acts, which require the approval of

shareholders representing at least two-thirds (2/3) of the issued and outstanding capital stock of the Company are as follows:

- Amendment of the Company's Articles of Incorporation (the "Articles") (including any increase or decrease of capital stock);
- Amendment of the Company's By-laws (the "By-laws");
- Sale, lease, exchange, mortgage, pledge or other disposition of all or a substantial part of the Company's assets;
- Incurring, creating or increasing bonded indebtedness;
- Increase or decrease of capital stock;
- Merger or consolidation of the Company with another corporation or corporations;
- Investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the Company was organized; and
- Dissolution of the Company.

Dividend Policy in Respect of the Preferred Shares

The declaration and payment of dividends on each Dividend Payment Date will be subject to the sole and absolute discretion of the Board to the extent permitted by law, and subject to the covenants (financial or otherwise) in the agreements to which the Company is a party. As and if dividends are declared by the Board, dividends on the Shares shall be at a fixed rate of Series 2A: [●]% per annum, and Series 2B: [●]%, in all cases calculated in respect of each Share by reference to the Offer Price thereof in respect of each Dividend Period.

Unless the Preferred Shares are redeemed by the Company on Optional Redemption Date, the Dividend Rate shall be adjusted on the Optional Redemption Date to the higher of (a) for Series 2A, the higher of (i) the Dividend Rate or (ii)[●]; and (b) for Series 2B, the higher of (i) the Dividend Rate or (ii) [●] .

Dividends on the Shares will be payable quarterly in arrears on [●],[●],[●] and [●] of each year (each a Dividend Payment Date). The dividends on the Shares will be calculated on a 30/360-day basis and will be paid quarterly in arrears on the last day of each 3-month Dividend Period (each a Dividend Payment Date), as and if declared by the Board. If the Dividend Payment Date is not a Banking Day, dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of dividends to be paid.

The Board will not declare and pay dividends on any Dividend Payment Date where (a) payment of the Dividend would cause the Company to breach any of its financial covenants or (b) the profits available to the Company to distribute as dividends are not sufficient to enable the Company to pay in full both the dividends on the Preferred Shares and the dividends on all other classes of the Company's shares that are scheduled to be paid on or before the same date as the dividends on the Preferred Shares and that have an equal right to dividends as the Preferred Shares.

If the profits available to distribute as dividends are, in the Board's opinion, not sufficient to enable the Company to pay in full on the same date both dividends on the Preferred Shares and the dividends on other shares that have an equal right to dividends as the Preferred Shares, the Company is required first, to pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that dividend payment date on any shares with a right to dividends ranking in priority to that of the Preferred Shares; and second, to pay dividends on the Preferred Shares and any other shares ranking equally with the Preferred Shares as to participation in profits *pro rata* to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include the amount of any dividend payable on that date and any arrears on past cumulative dividends on any shares ranking equal in the right to dividends with the Preferred Shares.

The profits available for distribution are, in general and with some adjustments, equal to the Company's accumulated, realized profits less accumulated, realized loss.

Dividends on the Preferred Shares will be cumulative. If for any reason the Company's Board does not declare a dividend on the Preferred Shares for a dividend period, the Company will not pay a dividend on the Dividend Payment Date for that dividend period. However, on any future Dividend Payment Date on which dividends are declared, holders of the Preferred Shares must receive the dividends due them on such Dividend Payment Date as well as all dividends accrued and unpaid to the holders of the Preferred Shares prior to such Dividend Payment Date.

Holders of Preferred Shares shall not be entitled to participate in any other or further dividends beyond the dividends specifically payable on the Preferred Shares.

Redemption of the Preferred Shares

As and if declared by the Board (or its Executive Committee), the Issuer may redeem the Preferred Shares on the fifth anniversary for Series 2A Preferred Shares and on the seventh anniversary for the Series 2B Preferred Shares from the Listing Date (the Optional Redemption Date) or on any dividend payment date thereafter; in whole but not in part, at a redemption price equal to the Offer Price of the Preferred Shares plus accrued and unpaid dividends for all dividend periods up to the date of actual redemption by the Company.

The Company has not established, and currently has no plans to establish, a sinking fund for the redemption of the Preferred Shares.

The Company may purchase the Preferred Shares at any time in the open market or by public tender or by private contract at any price through the PSE. The Preferred Shares so purchased may either be redeemed and cancelled (after the Optional Redemption Date) or kept as treasury shares, as applicable.

Early Redemption due to Taxation

If dividend payments become subject to additional or higher withholding or any new tax (including a higher rate of an existing tax) as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to the Company even before the Optional Redemption Date, the Company may redeem the Preferred Shares in whole, but not in part, (having given not more than 60 nor less than 30 days' notice) at the Offer Price plus all accrued and unpaid dividends, if any. The Redemption Price shall be paid within five (5) Banking Days of the exercise of the right to redeem the Preferred Shares.

Early Redemption due to an Accounting Event

If an opinion of a recognized accountancy firm authorized to perform auditing services in the Republic of the Philippines has been delivered to the Company stating that the Preferred Shares may no longer be recorded as equity in the audited consolidated financial statements of the Company prepared in accordance with PFRS, or such other accounting standards which succeed PFRS as adopted by the Company for the preparation of its audited consolidated financial statements for the relevant financial year, and such event cannot be avoided by use of reasonable measures available to the Company even before the Optional Redemption Date, the Company may redeem the Preferred Shares in whole, but not in part, (having given not more than 60 nor less than 30 days' notice) at the Offer Price plus all accrued and unpaid dividends, if any. The Redemption Price shall be paid within five (5) Banking Days of the exercise of the right to redeem the Preferred Shares.

Liquidation Rights in Respect of the Preferred Shares

The Preferred Shares will constitute the direct and unsecured subordinated obligations of the Company ranking at least *pari passu* in all respects and ratably without preference or priority among themselves with all other Preferred Shares issued by the Company as well as the Capital Securities and any other Parity Securities issued by the Company.

In the event of a return of capital in respect of the Company's winding up or otherwise (whether voluntarily or involuntarily) but not on a redemption or purchase by the Company of any of its share capital, the obligations of the Company in respect of the Preferred Shares will, subject to and to the extent permitted by applicable law, rank: (a) junior to all unsubordinated obligations of the Company (other than Parity Securities) and any obligation assumed by the Company under any guarantee of, or any indemnity in respect of, any obligation or commitment which rank or are expressed to rank senior to the Preferred Shares; (b) *pari passu* with each other and with any Parity Securities of the Company; and (c) senior only to the Company's Junior Securities. The holders of the Preferred Shares at the time outstanding will be entitled to receive, in Pesos out of the Company's assets available for distribution to shareholders, together with the holders of any other of the Company's shares ranking, as regards repayment of capital, *pari passu* with the Preferred Shares and before any distribution of assets is made to holders of any class of the Company's shares ranking after the Preferred Shares as regards repayment of capital, liquidating distributions in an amount equal to the Offer Price of the Preferred Share plus an amount equal to any dividends declared but unpaid in respect of the previous dividend period and any accrued and unpaid dividends for the then-current dividend period to (and including) the date of commencement of the Company's winding up or the date of any such other return of capital, as the case may be. If, upon any return of capital in the Company's winding up, the amount payable with respect to the Preferred Shares and any other of the Company's shares ranking as to any such distribution *pari passu* with the Preferred Shares is not paid in full, the holders of the Preferred Shares and of such other shares will share ratably in any such distribution of the Company's assets in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Preferred Shares will have no right or claim to any of the Company's remaining assets and will not be entitled to any further participation or return of capital in a winding up.

Payments on the Preferred Shares

All payments in respect of the Preferred Shares are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including but not limited to, stamp, issue, registration, documentary, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the Company will pay additional amounts so that holders of the Preferred Shares will receive the full amount of the relevant payment which otherwise would have been due and payable; provided, however, that the Company shall not be liable for: (a) the final withholding tax applicable on dividends earned on the Preferred Shares prescribed under the National Internal Revenue Code of 1997, (b) any income tax, whether or not subject to withholding; (c) expanded value added tax which may be payable by any holder of the Preferred Shares on any amount to be received from the Company under the Preferred Shares and (d) any withholding tax on any amount payable to any holder of the Share or any entity which is a non-resident foreign corporation; provided, further, that all sums payable by the Company to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments or governmental charges provided said entities present sufficient proof of such tax-exempt status from the tax authorities.

Documentary stamp tax for the primary issue of the Preferred Shares and the documentation, if any, shall be for the account of the Company.

The standard taxes applicable to the subsequent sale of the Preferred Shares by any holder of the Preferred Shares shall be for the account of the said holder (or the buyer in case such buyer shall have agreed to be responsible for the payment of such taxes).

No Pre-emptive Rights

There are no pre-emptive rights extended to holders of Preferred Shares over all share issuances of the Company including, without limitation, treasury shares.

Transfer of Shares and Share Register

The Preferred Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as Registrar for the Offer, and lodged with Philippine Depository and Trust Corporation (“PDTC”) as Depository Agent on Listing Date through PSE Trading Participants nominated by the Applicants.

Legal title to the Preferred Shares will be shown in an electronic register of shareholders (the “Registry of Shareholders”) which shall be maintained by the Registrar. The Registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Preferred Shares that is effected in the Registry of Shareholders (at the cost of the requesting Shareholder). The Registrar shall send (at the cost of the Company) at least once every quarter a Statement of Account to all Shareholders named in the Registry of Shareholders confirming the number of Shares held by each Shareholder on record in the Registry of Shareholders. Such Statement of Account shall serve as evidence of ownership of the relevant Shareholder as of a given date thereof. Any request by Shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Shareholder.

Initial placement of the Preferred Shares and subsequent transfers of interests in the Preferred Shares shall be subject to normal Philippine selling restrictions for listed securities as may prevail from time to time.

After Listing Date, Shareholders may request the Registrar, through their nominated PSE Trading Participant, to (a) open a scripless registry account and have their holdings of the Preferred Shares registered under their name (“name-on-registry account”), or (b) issue stock certificates evidencing their investment in the Preferred Shares. Any expense that will be incurred in relation to such registration or issuance shall be for the account of the requesting Shareholder.

Philippine law does not require transfers of the Preferred Shares to be effected on the PSE, but any off-exchange transfers will subject the transferor to a capital gains tax that may be significantly greater than the stock transfer tax applicable to transfers effected on an exchange. See “Taxation” on page 143 of this Prospectus. All transfers of shares on the PSE must be effected through a licensed stock broker in the Philippines.

Not convertible into Common Shares

The Preferred Shares shall not be convertible into Petron’s common shares.

Other Rights and Incidents Relating to the Preferred Shares

Following are other rights and incidents relating to the Preferred Shares, which may also apply to other classes of Petron’s stock.

Directors

Unless otherwise provided by law or the Articles, the Company’s corporate powers are exercised, its business is conducted, and its property is controlled by the Board. Petron has fifteen directors who are elected by holders of shares entitled to voting rights under the Articles during each annual meeting of the shareholders for a term of one year who shall serve as such until their successors shall be duly elected and shall have qualified. As mentioned, holders of Preferred Shares are not entitled to vote for and elect the Company’s Directors.

Petron’s By-laws currently disqualify or deem ineligible for nomination or election to the Board any person who is engaged in any business which competes with or is antagonistic to that of the Company. Without limiting the generality of the foregoing, a person shall be deemed so engaged:

- (a) If he is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of, any corporation (other than one in which the Company owns at least 30% of the capital stock) engaged in a business which the Board determines by resolution to be competitive or antagonistic to that of the Company or any of its affiliates and subsidiaries;
- (b) If he is an officer, manager, controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of any other corporation or entity engaged in any line of business of the Company or any of its affiliates and subsidiaries, if the Board determines by resolution that the laws against combinations in restraint of trade shall be violated by such person's membership in the Board;
- (c) If the Board, in the exercise of its judgment in good faith, determines by resolution that such person is the nominee of any person set forth in (a) or (b).

The Company conforms to the requirement to have at least two independent directors or such number of independent directors as may be required by law or regulation. As of the date of this Prospectus, the Company has three independent directors, namely, Mr. Reynaldo G. David, Mr. Artemio V. Panganiban, and Mr. Margarito B. Teves.

The presence of a majority of the directors shall constitute a quorum for the transaction of business at any meeting. In the absence of a quorum, a majority of the directors present may adjourn any meeting from time to time until a quorum is achieved. Notice of any adjourned meeting need not be given.

Any vacancy other than that caused by the removal by the shareholders, expiration of the term or increase in the number of directors on the Board, may be filled by the affirmative vote of at least a majority of the remaining directors, if still constituting a quorum. Any director elected in this manner shall serve only for the unexpired term of the director replaced.

Appraisal Rights

Philippine law recognizes the right of a shareholder to institute, under certain circumstances, proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights, as for example, where the directors themselves are the malefactors.

In addition, the Corporation Code grants a shareholder a right of appraisal in certain circumstances where he has dissented and voted against a proposed corporate action, including:

- An amendment of the articles of incorporation which has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or extension or shortening the term of corporate existence;
- The sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all of the assets of the corporation;
- The investment of corporate funds in another corporation or business for any purpose other than the primary purpose for which the corporation was organized; and
- A merger or consolidation.

In these circumstances, the dissenting shareholder may require the corporation to purchase his shares at a fair value which, in default of agreement, is determined by three disinterested persons, one of whom shall be named by the shareholder, one by the corporation, and the third by the two thus chosen. The SEC will, in the event of a dispute, determine any question about whether a dissenting shareholder is entitled to this right of appraisal. The dissenting shareholder will be paid if the corporate action in question is implemented and the corporation has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting shareholders.

Shareholders' Meetings

At the annual meeting or at any special meeting of the Company's shareholders, the latter may be asked to approve actions requiring shareholder approval under Philippine law.

Quorum

The Corporation Code provides that, except in instances where the approval of shareholders representing two-thirds of the outstanding capital stock is required to approve a corporate act (usually involving the significant corporate acts where even non-voting shares may vote, as identified above) or where the by-laws provide otherwise, a quorum for a meeting of shareholders will exist if shareholders representing a majority of the capital stock are present in person or by proxy.

Voting

At each shareholders' meeting, each shareholder shall be entitled to vote in person, or by proxy, all shares held by him, upon any matter duly raised in such meeting, which holders of preferred shares may vote on.

The Company's By-laws provide that proxies shall be in writing and signed and in accordance with the existing laws, rules and regulations of the SEC. Duly accomplished proxies must be submitted to the office of the Corporate Secretary not later than ten business days prior to the date of the stockholders' meeting. Pursuant to the Corporation Code, no proxies shall be valid for a period longer than five years.

Fixing Record Dates

The Board has the authority to fix in advance the record date for shareholders entitled: (a) to notice of, to vote at, or to have their votes voted at, any shareholders' meeting; (b) to receive payment of dividends or other distributions or allotment of any rights; or (c) for any lawful action or for making any other proper determination of shareholders' rights. Under the By-laws, the Board may, by resolution, direct the stock transfer books of the Corporation be closed for a period not exceeding 60 days preceding the date of any meeting of stockholders. The record date shall in no case be more than 60 days nor less than 35 days preceding such meeting of shareholders. In the case of dividend payments, the record date shall not be less than 10 business days after dividend declaration date in compliance with applicable regulations of the PSE.

Accounting and Auditing Requirements/Rights of Inspection

Philippine stock corporations are required to file copies of their annual financial statements with the SEC and the Philippine Bureau of Internal Revenue ("BIR"). Corporations whose shares are listed on the PSE are also required to file quarterly and annual reports with the SEC and the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a statement of financial position as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine at reasonable hours on a business day the books and records that the corporation is required by law to maintain.

The Board is required to present to shareholders at every annual meeting a financial report of the operations of the corporation for the preceding year. This report is required to include audited financial statements.

RISK FACTORS

Investment in the Preferred Shares involves a certain degree of risk. Prior to making any investment decision, prospective investors should carefully consider all of the information in this Prospectus, including the risks and uncertainties described below. The business, financial condition or results of operations of the Issuer could be materially adversely affected by any of these risks.

This Prospectus contains forward-looking statements that involve risks and uncertainties. Petron adopts what it considers conservative financial and operational controls and policies to manage its business risks. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. See section "Forward-Looking Statements" of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of Petron, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

Additional considerations and uncertainties not presently known to the Issuer or which the Issuer currently deems immaterial may also have an adverse effect on an investment in the Preferred Shares.

Investors should carefully consider all the information contained in this Prospectus including the risk factors described below, before deciding to invest in the Preferred Shares. The Company's business, financial condition and results of operations could be materially adversely affected by any of these risk factors.

General Risk Warning

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There may be a big difference between the buying price and the selling price of these securities.

Investors deal in a range of investments, each of which may carry a different level of risk.

Prudence Required

This risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study on the trading of securities before commencing any trading activity. Investors may request publicly-available information on the Preferred Shares and the Issuer thereof from the SEC and PSE.

Professional Advice

Investors should seek professional advice if they are uncertain of, or have not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially high risk securities.

Risks Relating to the Company's Business and Operations

Volatility of the price of crude oil may have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's financial results are primarily affected by the relationship, or margin, between the prices for its refined petroleum products and the prices for imported crude oil, which generally accounts for a large portion of the Company's total cost of goods sold. For example, in the six months ended June 30, 2014, crude oil accounted for approximately 52% of the Company's total cost of goods sold.

Many factors influence the price of crude oil, including changes in global supply and demand for crude oil, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation and other factors over which the Company has no control. Historically, international crude oil prices have been volatile, and they are likely to continue to be volatile in the future.

The Company holds approximately two months and approximately three weeks of crude oil and finished petroleum products inventory in the Philippines and Malaysia, respectively. Accordingly, since the Company accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices could adversely affect the Company, as it may require the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices. The Company may not be able to pass crude oil price fluctuations along to its consumers in a timely manner due to social and competitive concerns. Any inability to pass on fluctuations in the price of crude oil may have a material adverse effect on the Company's business, results of operations and financial condition. In addition, even if the Company were able to pass on increases in the price of crude oil to its customers, demand for its products may decrease as a result of such price increases. The Company's Malaysian operations are subject to government price controls. See "The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products, including price controls, subsidies and quotas" on page 40 of this Prospectus.

Furthermore, a sharp rise in crude oil prices would increase the Company's requirements for short-term financing for working capital and may result in higher financing costs for the Company. Any difficulties in securing short-term financing for working capital, or unfavorable pricing terms, may have a material adverse effect on the Company's financial condition and results of operations.

The Company relies primarily on a single source of supply for a significant portion of its crude oil requirements in each of the Philippines and Malaysia.

The Company purchases a significant portion of the crude oil for its Philippine operations from Saudi Arabian Oil Company ("Saudi Aramco"). For example, in 2013 and the first six months of 2014, the Company purchased approximately 79% and 70%, respectively, of the total crude oil supply requirements of the Limay Refinery from Saudi Aramco, the state-owned national oil company of Saudi Arabia. Petron has a term contract with Saudi Aramco entered into in 2008 to purchase various Saudi Aramco crudes. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is automatically renewed annually unless either the Company or Saudi Aramco decides to terminate the contract upon at least 60 days' written notice prior to its expiration date. The completion of RMP-2, expected by end 2014, is expected to increase the total crude oil supply requirements of the Limay Refinery. The Company may be required to purchase more Saudi Aramco crudes to meet such increased demand. The supply of imported crude oil by Saudi Aramco is subject to a variety of factors beyond the Company's control, including political developments in and the stability of Saudi Arabia and the rest of the Middle East, government regulations with respect to the oil and energy industry in those regions, weather conditions and overall economic conditions in the Middle East. In addition, the Company purchases a significant portion of the crude oil supply requirements for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia, Inc. ("EMEPMI"). A disruption in the operations of Saudi Aramco or of EMEPMI, or a decision by either Saudi Aramco or EMEPMI to amend or terminate their respective contracts with the Company, could negatively impact the Company's crude oil supply. If the Company's supply of crude oil from Saudi Aramco or EMEPMI were disrupted, the Company would be required to

meet any consequent supply shortfall through other suppliers or spot market purchases. Depending on market conditions at the time of the disruption, such purchases from other suppliers could be at higher prices than the Company's purchases from Saudi Aramco or EMEPMI, which would adversely affect the Company's financial condition and results of operations.

The Limay Refinery and the Port Dickson Refinery are capable of processing other crude oils. The Company's crude oil optimization strategy includes the utilization of other crude oils at both refineries. In addition, once RMP-2 is completed, the Limay Refinery will have the flexibility to use heavier, more sour alternative crudes.

However, there can be no assurance that the Company will be able to convert to other crude oils efficiently or in a timely manner.

If the Company is unable to obtain an adequate supply of crude oil or is only able to obtain such supply at unfavorable prices, its margins and results of operations would be materially adversely affected.

The Company's business, financial condition and results of operations may be adversely affected by intense competition.

The Company faces intense competition in the sale of petroleum and other related products in the markets in which it operates. The Company competes with a number of multinational, national, regional and local competitors in the refined petroleum products business for market share of petroleum products sales. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs. Participants in the reseller and LPG sectors in the Philippines continue to rely on aggressive pricing and discounting in order to expand their market share.

The Company's competitiveness will depend on its ability to manage costs, increase and maintain efficiency at its refineries, effectively hedge against fluctuations in crude oil prices, and maximize utilization of its assets and operations. If the Company is unable to compete effectively with its competitors, its financial condition and results of operations, as well as its business prospects could be materially adversely affected.

In addition, the Philippine oil industry is affected by ongoing smuggling and illegal trading of petroleum products. These illegal activities have resulted in decreases in sales volume and sales price for legitimate oil market participants in the Philippines. The Company's ability to compete effectively will depend to a degree on the proper enforcement of Philippine regulations by the Philippine government, which is beyond its control.

The Company's business strategies require significant capital expenditures and financing, which are subject to a number of risks and uncertainties, and its financial condition and results of operations may be adversely affected by its debt levels.

The Company's business is capital intensive. Specifically, the processing and refining of crude oil and the purchase, construction and maintenance of machinery and equipment require substantial capital expenditures. The Company's ability to maintain and increase its sales, net income and cash flows depends upon the timely and successful completion of its planned capital expenditure projects. The Company's current business strategies involve various upgrades and enhancements to its refineries, primarily the Limay Refinery pursuant to the RMP-2, the continued expansion of its service station network in the Philippines, the rebranding and refurbishing of its service station network in Malaysia, and the expansion and upgrade of its logistics capacity. See "The Company —Capital Expenditures Plan" on page 77 of this Prospectus for more information about the Company's capital expenditure plans. If the Company fails to complete its planned capital expenditure projects on time or within budget or at all, or to operate its facilities at their designed capacity, it may be unable to achieve the targeted growth in sales and profits, and its business, results of operations and financial condition could be adversely affected.

In addition, the Company has incurred a substantial amount of indebtedness to finance its capital expenditure projects, a significant portion of which is due in five years or less. The Company's ability to complete its planned capital expenditure projects and meet its debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional financing. There can be no assurance that the Company will be able to generate sufficient cash flows from its operations or obtain adequate financing for its planned capital expenditure projects or to meet its debt servicing obligations, on acceptable terms or at all. Failure by the Company to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial condition and results of operations.

Any significant disruption in operations or casualty loss at the Company's refineries could adversely affect its business and results of operations and result in potential liabilities.

The Company's operation of its refineries and implementation of its expansion plans, including the RMP-2, could be adversely affected by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, fires, explosions, release of toxic fumes, engineering and environmental problems, natural disasters and other unforeseen circumstances and problems. These types of disruptions could result in product run-outs, facility shutdowns, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and/or unplanned inventory build-up, all of which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company has insurance policies that cover almost all the aspects of the Company's operations (i.e. property damage, third party liability, personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown and business interruption) to mitigate the potential impact of these risks. There are some risks which are self-insured since the policies may not be available in the market or the cost of insuring is very prohibitive. There can be no assurance that operational disruptions will not occur in the future or that insurance will adequately cover the entire scope or extent of the losses or other financial impact on the Company.

The Company may fail to integrate acquired businesses properly, which could adversely affect the Company's results of operations and financial condition.

The Company will continue to consider selective opportunities to expand both domestically and outside the Philippines through strategic acquisitions consistent with its focuses on increased production of White Products and the creation of operational synergies. However, there can be no assurance that the Company will be able to integrate its acquisitions fully in line with its strategy. Any failure to do so could have a material adverse effect on the business, results of operations and financial condition of the Company. Future acquisitions could also give rise to similar integration risks, as well as financial risks.

Failure to respond quickly and effectively to product substitution or government-mandated product formulations may adversely affect the Company's business and prospects.

As a result of high oil prices and environmental concerns, the use of alternative fuels such as natural gas, ethanol and coco-methyl-ester fuel blends have become more attractive to the Company's customers in recent years. If alternative fuels become more affordable and available than petroleum products, customers may shift from petroleum to these alternative fuels not offered by the Company, resulting in lower sales volumes. In recent years, the Philippine and Malaysian governments have each enacted regulations mandating the inclusion of a specified percentage of alternative fuels in gasoline fuels sold or distributed by every oil company in those countries, and these types of requirements may be increased in the future. If the Company does not respond quickly and effectively to product substitutions or government-mandated product formulations in the future, its business and prospects may be adversely affected.

The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products, including price controls, subsidies and quotas.

As in many countries, the fuel business in Malaysia is regulated by the government. The Malaysian government regulates the pricing structure through the automatic pricing mechanism (“APM”), pursuant to which it mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. See “Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011” on page 99 of this Prospectus. The Malaysian government subsidizes fuel prices so that increases in international crude oil prices are not borne fully by Malaysian consumers. The Company’s financial condition thus depends to a significant degree on the Malaysian government’s prompt payment of these fuel subsidies. The Malaysian government has publicly stated that the country’s fuel prices will eventually be deregulated and set on a free market basis, as the current subsidy levels are unsustainable. However, no firm timeline has been provided for this deregulation. There can be no assurance that the Malaysian government will not decide to decrease or eliminate its subsidies or narrow their application in the future without a corresponding commensurate increase in or elimination of the price ceiling.

A substantial portion of the Company’s revenue is derived from sales of refined petroleum products in Malaysia that are subject to price controls. Accordingly, if international crude oil prices remain high or increase further and the Malaysian government decreases or eliminates the refined petroleum product subsidies without increasing or eliminating the mandated refined petroleum product prices, the Company’s financial condition and results of operations would be materially and adversely affected.

In addition, the sale of diesel in Malaysia is subject to a quota system to ensure that subsidized diesel is not sold illegally to industrial or commercial customers at higher, unregulated, prices. Diesel sales that exceed the volumes permitted under the Company’s or its industrial or commercial customers’ quotas are not eligible for government subsidies. Accordingly, the Company endeavors to limit diesel sales to volumes covered by the quotas. See “Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011” on page 99 of this Prospectus. There can be no assurance that the Malaysian government will increase quotas, grant applications or not decrease the Company’s quotas or those of any of its industrial or commercial customers in the future. A substantial portion of the Company’s revenue is derived from sales of diesel in Malaysia that are subject to the quota system. Accordingly, if the Malaysian government decreases or does not increase the Company’s quotas or those of any of its commercial transportation customers, the Company’s financial condition and results of operations would be materially and adversely affected.

Continued compliance with safety, health, environmental and zoning laws and regulations may adversely affect the Company’s results of operations and financial condition.

The operations of the Company’s business are subject to a number of national and local laws and regulations in the countries in which it operates, including safety, health, environmental and zoning laws and regulations. These laws and regulations impose controls on air and water discharges, the storage, handling, discharge and disposal of waste, the location of storage facilities, and other aspects of the Company’s business. Failure to comply with relevant laws and regulations may result in financial penalties or administrative or legal proceedings against the Company, including the revocation or suspension of the Company’s licenses or operation of its facilities.

The Company has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, the Company has made, and expects to continue to make, capital expenditures on an ongoing basis to comply with safety, health, environmental and zoning laws and regulations. For example, the Company built a light virgin naphtha isomerization unit and gas oil hydrotreater in 2006 to ensure that the Limay Refinery complied with the standards mandated by the Philippine Clean Air Act. See “Regulatory and Environmental Matters—Philippines” on page 90 of this Prospectus.

There can be no assurance that the Company will be in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held responsible in any future litigation or proceedings relating to safety, health, environmental and zoning matters, the costs of which could be material. In addition, safety, health, environmental and zoning laws and regulations in the Philippines and Malaysia have become increasingly stringent. There can be no assurance that the adoption of new safety, health, environmental and zoning laws and regulations, new interpretations of existing laws, increased governmental enforcement of safety, health, environmental and zoning laws or other developments in the future will not result in the Company being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade or relocate its facilities. For example, in November 2001, the City of Manila, citing concerns of safety, security and health, passed an ordinance reclassifying the area occupied by the Company's main storage facility in Pandacan, Manila, from industrial to commercial, effectively rendering its continued operation in Pandacan illegal and necessitating a relocation of the storage facility. See "Business—Legal Proceedings—Pandacan Terminal Operations" on page 87 of this Prospectus. In August 2012, the City Council of Manila passed a further ordinance specifically requiring owners and operators of petroleum refineries and oil depots to relocate their facilities by the end of January 2016. Although the Company is contesting the implementation of the November 2001 ordinance, it has decided to scale down operations at its petroleum product storage facilities in Pandacan by no later than January 2016.

In addition, the Company expects Euro IV-standard fuels to become mandatory in the Philippines in 2016. In Malaysia, the government is considering implementation of Euro 4M and Euro 5M fuels in phases. See "Regulatory and Environmental Matters—Malaysia—Environmental Laws—Environmental Quality Act, 1974" on page 100 of this Prospectus. The Company is making capital expenditures to ensure that its refineries will comply with Euro IV standards and Euro 4M/Euro 5M standards when these standards are mandated by the Philippine and Malaysian governments, respectively. See "The Company —Capital Expenditures Plan" on page 77 of this Prospectus. If the Company fails to complete its planned refinery upgrades or enhancements on time, it may have to import additional products in the spot market to blend with its own production to ensure compliance with the relevant standards, which could have a material adverse effect on the Company's financial condition and results of operations.

Changes in applicable taxes, duties and tariffs could increase the Company's operating costs and adversely affect its business, results of operations and financial condition.

The Company's operations are subject to various taxes, duties and tariffs. The tax and duty structure of the oil industry in the Philippines has undergone some key changes in recent years. For example, duties for the import of crude oil and petroleum products into the Philippines were increased on January 1, 2005 from 3% to 5%, and these duties were subsequently reduced to 0% with effect from July 4, 2010 (except for certain types of aviation gas). Furthermore, the Philippine government imposed an additional 12% value-added tax ("VAT") on the sale or importation of petroleum products in 2006. In Malaysia, its current system of import duties and sales taxes will be replaced by a goods and service tax beginning April 1, 2015. There can be no assurance that any future tax changes in the Philippines or Malaysia would not have a material and adverse effect on the Company's business, financial condition and results of operations.

The Company may be adversely impacted by the fluctuations in the value of the Philippine Peso and the Ringgit Malaysia against the U.S. dollar.

A substantial portion of the Company's revenues is denominated in Philippine Pesos and Ringgit Malaysia, while a substantial portion of its expenses, including crude oil purchases and foreign currency denominated debt service costs, is denominated in U.S. dollars. In 2013 and the six month period ended June 30, 2014, 55% and 56%, respectively, of the Company's revenues were denominated in Philippine Pesos, and, in 2013 and the six month period ended June 30, 2014, 35% and 34%, respectively, of its revenues were denominated in Ringgit Malaysia, while 89% and 88% of its cost of goods sold were denominated in U.S. dollars in 2013 and the six months ended June 30, 2014, respectively. In addition, as of June 30, 2014, 25% of the Company's outstanding debt was denominated in U.S. dollars. The

Company's financial reporting currency is the Philippine Peso, and therefore depreciation of the Philippine Peso would result in increases in the Company's foreign currency denominated expenses as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the Company's U.S. dollar denominated debt obligations, thereby adversely affecting the Company's results of operations and financial condition. In addition, there can be no assurance that the Company could increase its Peso- or Ringgit-denominated product prices to offset increases in its crude oil or other costs resulting from any depreciation of the Peso or the Ringgit, as applicable. Since January 1, 2009, the value of the Peso against the U.S. dollar has fluctuated from a low of ₱ 49.27 per U.S. dollar on March 3, 2009 to a high of ₱ 40.55 per U.S. dollar on March 14, 2013. In the same period, the value of the Ringgit Malaysia against the U.S. dollar has fluctuated from a low of RM 3.7365 per U.S. dollar on March 5, 2009 to a high of RM 2.9342 per U.S. dollar on July 26, 2011. While the Company uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There can be no assurance that the value of the Peso or the Ringgit Malaysia will not decline or continue to fluctuate significantly against the U.S. dollar, and any significant future depreciation of the Peso or the Ringgit Malaysia could have a material adverse effect on the Company's margins, results of operations and financial condition.

The Company depends on certain key personnel, and its business and growth prospects may be disrupted if their services were lost.

The Company's future success is dependent upon the continued service of its key executives and employees. The Company cannot assure potential investors that it will be able to retain these executives and employees. If many of its key personnel were unable or unwilling to continue in their present positions, or if they joined a competitor, the Company may not be able to replace them easily, and the business of the Company may be significantly disrupted and its financial condition and results of operations may be materially and adversely affected.

The Company's controlling shareholder may have interests that may not be the same as those of other shareholders.

San Miguel Corporation ("SMC"), directly and indirectly, holds an effective 68.26% of the Company's outstanding common equity as of [August 31, 2014]. See "Ownership and Corporate Structure" on page 65 of this Prospectus. SMC is not obligated to provide the Company with financial support or to exercise its rights as a shareholder in the Company's best interests or the best interests of the Company's other shareholders. If the interests of SMC conflict with the interests of the Company, the Company could be disadvantaged by the actions that SMC chooses to pursue.

In addition, while the Company expects to benefit from its ongoing relationship with SMC and its subsidiaries and affiliates through their global reach and relationships, there can be no assurance that SMC will allow the Company to have access to such benefits.

If the number or severity of claims for which the Company is self-insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than its recorded liabilities, the Company's financial condition and results of operations may be materially adversely affected.

The Company uses a combination of self-insurance, reinsurance and purchased insurance to cover its properties and certain potential liabilities. The Company's insurance coverage includes property, marine cargo and third party liability. The Company's business interruption insurance has a US\$94.5 million limit that covers losses at the Limay Refinery. All insurance policies relating to the Company's Philippine operations are written by its wholly-owned insurance subsidiary, Petrogen Insurance Corporation ("Petrogen"). The majority of the risks insured by Petrogen are reinsured with Standard & Poor's A-rated foreign insurers through Overseas Ventures Insurance Corporation Ltd. ("Ovincor"), Petron's Bermuda-based captive insurance subsidiary. For its Malaysian operations, the Company purchases insurance

from Malaysian insurance companies, consistent with Malaysian law. The Company estimates the liabilities associated with the risks retained by it, in part, by considering historical claims, experience and other actuarial assumptions which, by their nature, are subject to a degree of uncertainty and variability. Among the causes of this uncertainty and variability are unpredictable external factors affecting future inflation rates, discount rates, litigation trends, legal interpretations and actual claim settlement patterns. If the number or severity of claims for which the Company is self-insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than its original assessments, the Company's financial condition, results of operations and cash flows may be materially adversely affected.

Risks Relating to the Philippines and Malaysia

The Company's business and sales may be negatively affected by slow growth rates and economic instability in the Philippines and Malaysia, as well as globally.

The Company derives substantially all of its revenues and operating profits from sales of its products in the Philippines and Malaysia. In 2013 and the six months ended June 30, 2014, the Company derived approximately 60% and 61%, respectively, of its sales from its Philippine operations, and in 2013 and the six months ended June 30, 2014, the Company derived approximately 40% and 39%, respectively, of its sales from its Malaysian operations. The Company's product demand and results of operations have generally been influenced to a significant degree by the general state of the Philippine economy and the overall levels of business activity in the Philippines, and the Company expects that this will continue to be the case in the future. The Company also expects that its product demand and results of operations will be influenced to a significant degree by the general state of the Malaysian economy and the overall levels of business activity in Malaysia. The Philippines and Malaysia have both experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso or the Ringgit Malaysia, as applicable, and the imposition of exchange controls. The Company cannot assure prospective investors that one or more of these factors will not negatively impact Philippine or Malaysian consumers' purchasing power, which could materially and adversely affect the Company's financial condition and results of operations. Furthermore, a re-emergence of severe acute respiratory syndrome or avian influenza (commonly known as bird flu) or the emergence of another similar disease in the Philippines or Malaysia or other countries in Southeast Asia could adversely affect the Philippine and Malaysian economies, which could materially and adversely affect the Company's financial condition and results of operations.

In addition, global financial, credit and currency markets have, since the second half of 2008, experienced, and may continue to experience, significant dislocations and liquidity disruptions. The volatility in global financial markets has added to the uncertainty of the global economic outlook, and a number of countries are experiencing slowing economic activity. In the past, the Philippine and Malaysian economies and the securities of Philippine companies have been influenced, to varying degrees, by economic and market conditions in other countries, particularly other countries in Southeast Asia, as well as investors' responses to those conditions. The current uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines and/or Malaysia to deteriorate. Any downturn in the Philippine or Malaysian economies may negatively affect consumer sentiment and general business conditions in the Philippines or Malaysia, as applicable, which may lead to a reduction in demand for the Company's products and materially reduce the Company's revenues, profitability and cash flows. Moreover, there can be no assurance that current or future Philippine and Malaysian governmental policies will continue to be conducive to sustaining economic growth.

Political instability, acts of terrorism or military conflict in the Philippines or Malaysia could have a destabilizing effect and may have a negative effect on the Company.

The Philippines has from time to time experienced political and military instability. In the last few years, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. There can be no assurance that

acts of election-related or other political violence will not occur in the future, and any such events could negatively impact the Philippine economy. An unstable political environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the Company's business, financial condition and results of operations. The Philippines has also been subject to a number of terrorist attacks since 2000, and the Philippine armed forces have been in conflict with groups that have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. Political instability, acts of terrorism, violent crime and similar events could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

The Company may also be affected by political and social developments in Malaysia, as well as changes in the political leadership and/or government policies in Malaysia. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that impose and/or increase restrictions on imports, the conduct of business, the repatriation of profits, the imposition of capital controls, changes in interest rates and the taxation of goods and services. There can be no assurance that any changes in such regulations or politics imposed by the Malaysian government from time to time will not have an adverse effect on the Company's business, financial condition, results of operations and prospects. In addition, terrorist attacks and other acts of violence or war in Malaysia may negatively affect the Malaysian economy, resulting in a loss of consumer confidence and reduced demand for the Company's products in Malaysia, which could adversely affect the Company's business, financial condition, results of operations and prospects.

The occurrence of natural catastrophes or electricity blackouts may materially disrupt the Company's operations.

The Philippines and Malaysia have both experienced a number of major natural catastrophes in recent years, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. Natural catastrophes may disrupt the Company's ability to produce or distribute its products and impair the economic conditions in affected areas, as well as the overall Philippine and Malaysian economies. The Philippines and Malaysia have both also experienced electricity blackouts resulting from insufficient power generation, faulty transmission lines and other disruptions, such as typhoons or other tropical storms. These types of events may materially disrupt the Company's business and operations and could have a material adverse effect on the Company's financial condition and results of operations. The Company has insurance policies that cover business interruption and material damage to its facilities caused by natural catastrophes. However, the Company cannot assure prospective investors that the insurance coverage it maintains for these risks will adequately compensate the Company for all damages and economic losses resulting from natural catastrophes or electricity blackouts, including possible business interruptions.

Investors may face difficulties enforcing judgments against the Company.

The Company is organized under the laws of the Philippines and most of its assets are located in the Philippines and Malaysia. It may be difficult for investors to effect service of process outside the Philippines upon the Company with respect to claims pertaining to the Preferred Shares. Moreover, it may be difficult for investors to enforce in the Philippines or Malaysia judgments against the Company obtained outside the Philippines or Malaysia, as applicable, in any actions pertaining to the Preferred Shares, particularly with respect to actions for claims to which the Company has not consented to service of process outside the Philippines or Malaysia, as the case may be.

In addition, substantially all of the directors and senior management of the Company are residents of the Philippines, and all or a substantial portion of the assets of these persons are or may be located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons outside the Philippines or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines.

The Philippines is not a party to any international treaty relating to the recognition or enforcement of foreign judgments. Philippine law provides that a final and conclusive judgment of a foreign court is enforceable in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, only if (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) the other party had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of fact or law and (iv) such judgment was not contrary to public policy or good morals in the Philippines.

A judgment obtained for a fixed sum in a court of a reciprocating country (as listed in the First Schedule of the Reciprocal and Enforcement of Foreign Judgments Act 1958 (“REJA”)) may be recognized and enforced by the courts of Malaysia upon registration of the judgment with the courts of Malaysia under the REJA within six years after the date of the judgment, or, where there have been proceedings by way of appeal against the judgment, after the date of the last judgment given in those proceedings, so long as the judgment: (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction and the judgment debtor being the defendant in the original court received notice of those proceedings in sufficient time to enable it to defend the proceedings; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; (vii) could be enforced by execution in the country of that original court; (viii) is for a fixed sum; (ix) is not preceded by a final and conclusive judgment by a court having jurisdiction in that matter; and (x) is vested in the person by whom the application for registration was made.

Under current Malaysian law, any judgment obtained for a fixed sum in a court of a foreign jurisdiction with which Malaysia has no arrangement for reciprocal enforcement of judgments, after due service of process, may, at the discretion of the courts of Malaysia, be actionable in the courts of Malaysia by way of a suit on a debt if such judgment is final and conclusive. However, such action may be met with defenses, including, but not limited to, defenses based on the conditions listed above. A money judgment by the courts of a non-reciprocating country may be recognized by Malaysian courts and be enforced by way of summary judgment without re-examination of the issues in dispute provided that the judgment: (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; and (vii) is for a fixed sum.

If foreign exchange controls were to be imposed, the Company’s ability to access foreign currency to purchase raw materials and equipment and to service foreign currency denominated debt obligations could be adversely affected.

Generally, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. The Monetary Board of the Bangko Sentral ng Pilipinas (the “BSP”), with the approval of the President of the Philippines, has statutory authority, in the imminence of or during a foreign exchange crisis or in times of national emergency, to: (i) suspend temporarily or restrict sales of foreign exchange; (ii) require licensing of foreign exchange transactions; or (iii) require delivery of foreign exchange to the BSP or its designee banks. The Philippine government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations.

There are foreign exchange policies in Malaysia that support the monitoring of capital flows into and out of the country in order to preserve its financial and economic stability. The foreign exchange policies in Malaysia are governed by the Financial Services Act 2013 (“FSA”) and the Islamic Financial Services Act 2013 (“IFSA”) and are administered by the Foreign Exchange Administration, an arm of Bank Negara Malaysia (“BNM”), which is the central bank of Malaysia. BNM has issued Rules and Notices that regulate foreign exchange dealings in Malaysia pursuant to the powers conferred by the FSA and IFSA. Currently,

there are (i) Rules Applicable to Non-Residents; and (ii) Rules Applicable to Residents. Under the Rules Applicable to Non-Residents issued by BNM, there is no restriction for non-residents to invest in Malaysia in any form of Ringgit assets either as direct or portfolio investments, and non-residents are free to repatriate any amount of funds in Malaysia at any time, including capital, divestment proceeds, profits, dividends, rental, fees and interest arising from investment in Malaysia, subject to the applicable reporting requirements and any withholding tax. Repatriation, however, must be made in foreign currency.

The Company purchases some critical raw materials, particularly crude oil, and some technically advanced equipment from abroad and needs foreign currency to make these purchases. In addition, the Company has incurred and may continue to incur foreign currency denominated obligations and Peso-denominated debt obligations that are payable in foreign currency. There can be no assurance that the Philippine government or the Malaysian Foreign Exchange Administration will not impose economic or regulatory controls that may restrict free access to foreign currency in the future. Any such restrictions imposed in the future could severely curtail the Company's ability to purchase crude oil, materials and equipment from outside the Philippines or Malaysia in U.S. dollars and its ability to make principal and interest payments in U.S. dollars on its foreign currency-denominated obligations or Peso-denominated debt obligations that are payable in foreign currency, which could materially and adversely affect its financial condition and results of operations.

Risks Relating to the Preferred Shares

The Preferred Shares may not be a suitable investment for all investors.

Each potential investor in the Preferred Shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Preferred Shares, the merits and risks of investing in the Preferred Shares and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Preferred Shares and the impact the Preferred Shares will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Preferred Shares, including where the currency for principal or dividend payments is different from the potential investor's currency;
- understand thoroughly the terms of the Preferred Shares and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Preferred Shares are perpetual securities and investors have no right to require redemption.

The Preferred Shares are perpetual and have no fixed final maturity date. Holders have no right to require the Company to redeem the Preferred Shares at any time and they can only be disposed of by sale in the secondary market. Holders who wish to sell their Preferred Shares may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Preferred Shares. Therefore, holders of the Preferred Shares should be aware that they may be required to bear the financial risks of an investment in the Preferred Shares for an indefinite period of time.

The Preferred Shares are subordinated obligations.

The obligations of the Company under the Preferred Shares will constitute unsecured and subordinated obligations of the Company. In the event of the winding-up of the Company, the rights and claims of holders of the Preferred Shares will (subject to and to the extent permitted by applicable law) rank senior

to the holders of the common shares of the Company and *pari passu* with each other, but junior to the claims of all other creditors.

In the event of a winding-up of the Company, there is a substantial risk that an investor in the Preferred Shares will lose all of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Preferred Shares.

There are no terms in the Preferred Shares that limit the Company's ability to incur additional indebtedness, including indebtedness that ranks senior to or *pari passu* with the Preferred Shares.

There may be insufficient distributions upon liquidation.

Under Philippine law, upon any voluntary or involuntary dissolution, liquidation or winding up of the Company, holders of the Preferred Shares will be entitled only to the available assets of the Company remaining after the indebtedness of the Company is satisfied. If any such assets are insufficient to pay the amounts due on the Preferred Shares, then the holders of the Preferred Shares shall share ratably in any such distribution of assets in proportion to the amounts to which they would otherwise be respectively entitled. In the event of liquidation or winding-up, the unsubordinated obligations of the Company shall be preferred over the claims of holders of the Shares in respect of the Shares, which Shares shall rank *pari passu* with each other.

Holders may not receive dividend payments if the Company elects to defer dividend payments.

Dividends on the Preferred Shares may not be paid in full, or at all. Under the terms and conditions governing the Preferred Shares, the Company may pay no dividends or less than full dividends on a Dividend Payment Date. Holders of the Preferred Shares will not receive dividends on a Dividend Payment Date or for any period during which the Company does not have retained earnings out of which to pay dividends.

If dividends on the Preferred Shares are not paid in full, or at all, the Preferred Shares may trade at a lower price than they might otherwise have traded if dividends had been paid. The sale of Preferred Shares during such a period by a holder of Preferred Shares may result in such holder receiving lower returns on the investment than a holder who continues to hold the Preferred Shares until dividend payments resume. In addition, because of the dividend limitations, the market price for the Preferred Shares may be more volatile than that of other securities that do not have these limitations.

The ability of the Company to make payments under the Preferred Shares is limited by the terms of the Company's other indebtedness.

The Company has and will continue to have a certain amount of outstanding indebtedness. The current terms of the Company's financing agreements contain provisions that could limit the ability of the Company to make payments on the Preferred Shares. Also, the Company may, in the future, directly or indirectly through its subsidiaries, enter into other financing agreements which may restrict or prohibit the ability of the Company to make payments on the Preferred Shares. There can be no assurance that existing or future financing arrangements will not adversely affect the Company's ability to make payments on the Preferred Shares.

There may be a lack of public market for the Preferred Shares.

The Philippine securities markets are substantially less liquid and more volatile than major securities markets in other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The Company cannot guarantee that the market for the Preferred Shares will always be active or liquid upon their listing on the PSE.

An active or liquid trading market for the Preferred Shares may not develop.

The Company and the Joint Lead Managers are not obligated to create a trading market for the Preferred Shares and any such market-making will be subject to the limits imposed by applicable law, and may be interrupted or discontinued at any time without notice. Accordingly, the Company cannot predict whether an active or liquid trading market for the Preferred Shares will develop or if such a market develops, if it can be sustained. Consequently, a shareholder may be required to hold his Preferred Shares for an indefinite period of time or sell them for an amount less than the Offer Price.

Holders of the Preferred Shares may not be able to reinvest at a similar return on investment.

On the Optional Redemption Date or at any time redemption due to a tax event or an accounting event occurs, the Company may redeem the Preferred Shares for cash at the redemption price, as described in “Description of the Preferred Shares” on page 29 of this Prospectus. At the time of redemption, dividend rates may be lower than at the time of the issuance of the Preferred Shares and, consequently, the holders of the Preferred Shares may not be able to reinvest the proceeds at a comparable yield or purchase securities otherwise comparable to the Preferred Shares.

The Preferred Shares have no voting rights.

Holders of Preferred Shares will not be entitled to elect the Directors of the Company. Except as specifically set forth in the Articles and as provided by Philippine law, holders of Preferred Shares will have no voting rights (see “Description of the Preferred Shares” on page 29 of this Prospectus).

USE OF PROCEEDS

The Company estimates that the net proceeds from the Offer shall amount to approximately [P9.9] billion (assuming full exercise of the Oversubscription Option), after fees, commissions and expenses.

Estimated fees, commissions and expenses relating to the Offer are as follows (assuming full exercise of the Oversubscription Option):

In ₱ Millions	
Underwriting Fees for the Preferred Shares being sold by the Company	[P75,000,000.00]
Taxes to be paid by the Company	[P50,000.00]
Philippine SEC filing and legal research fee	[P3,093,125.00]
Estimated PSE listing and processing fee	[P10,050,000.00]
Estimated legal and other professional fees	[P8,000,000.00]
Estimated other expenses	[P1,500,000.00]
TOTAL	[P97,693,125.00]

The net proceeds of the Offer shall be used primarily to redeem the Outstanding Preferred Shares with Offer Price of ₱100.00 per preferred share which are callable starting on March 5, 2015 or any dividend payment date thereafter. In case the net proceeds of the offer will not be sufficient to redeem the Outstanding Preferred Shares, the balance will be financed from the Company's funds.

Pending the above use of proceeds, the Company intends to invest the net proceeds from the Offer in short-term liquid investments including but not limited to short-term government securities, bank deposits and money market placements which are expected to earn prevailing market rates.

No amount of the proceeds is to be used to reimburse any officer, director, employee, or shareholder, for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

The Company undertakes that it will not use the net proceeds from the Offer for any purpose, other than as discussed above. The Company's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Company's management may find it necessary or advisable to alter its plans. In the event of any substantial deviation/adjustment or reallocation in the planned use of proceeds, the Company shall inform the SEC, PSE and the holders of the Shares in writing at least 30 days before such deviation, adjustment or reallocation is implemented. Any material or substantial adjustments to the use of proceeds, as indicated above, should be approved by the Board and disclosed to the PSE. In addition, the Company shall submit via the PSE's Online Disclosure System the following disclosures to ensure transparency in the use of proceeds:

- (i) any disbursements made in connection with the planned use of proceeds from the Offer;
- (ii) quarterly progress report on the application of the proceeds from the Offer on or before the first 15 days of the following quarter;
- (iii) annual summary of the application of the proceeds on or before January 31 of the following year; and
- (iv) approval by the Board of any reallocation on the planned use of proceeds. The actual disbursement or implementation of such reallocation must be disclosed by the Company at least 30 days prior to the said actual disbursement or implementation.

The Company shall submit a certification by the Company's Treasurer and external auditor on the accuracy of the information reported by the Company to the PSE, as well as a detailed explanation for any material variances between the actual disbursements and the planned use of proceeds in the Prospectus, if any, in the Company's quarterly and annual reports as required in items (ii) and (iii) above. Such detailed explanation will state the approval of the Board as required in item (iv) above.

DETERMINATION OF THE OFFER PRICE

The Offer Price of [₱1,000.00] is at a premium to the Preferred Share's par value per share of ₱1.00. The Offer Price was arrived at by dividing the desired gross proceeds of ₱10 billion, if the Oversubscription Option is fully exercised, by the amount of Preferred Shares allocated for this offering.

The Company's existing Outstanding Preferred Shares are listed and traded on the PSE under the stock symbol "PPREF". The closing price of the preferred shares as of September 2, 2014 is ₱101.00.

PLAN OF DISTRIBUTION

Petron plans to issue the Preferred Shares to institutional and retail investors through a public offering to be conducted through the Joint Lead Managers.

Joint Lead Managers

BDO Capital & Investment Corporation (“BDO Capital”), China Banking Corporation (“China Bank”), RCBC Capital Corporation (“RCBC Capital”), SB Capital Investment Corporation (“SB Capital”) and Standard Chartered Bank (“SCB”) (collectively, the “Joint Lead Managers”), have agreed to distribute and sell the Preferred Shares at the Offer Price, pursuant to an Underwriting Agreement to be entered into with Petron (the “Underwriting Agreement”). Subject to the fulfillment of the conditions provided in the Underwriting Agreement, the Joint Lead Managers have committed to underwrite the following amounts on a firm basis:

BDO Capital & Investment Corporation
China Banking Corporation
RCBC Capital Corporation
SB Capital Investment Corporation
Standard Chartered Bank
TOTAL

_____ ₱

The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to Petron of the net proceeds of the Preferred Shares.

The underwriting and selling fees to be paid by the Company in relation to the Offer shall be equivalent to [0.75%] of the gross proceeds of the Offer. This shall be inclusive of fees to be paid to the Joint Lead Managers and Co-Managers, if any, and commissions to be paid to the Trading Participants of the PSE.

The Joint Lead Managers are duly licensed by the SEC to engage in underwriting or distribution of the Preferred Shares. The Joint Lead Managers may, from time to time, engage in transactions with and perform services in the ordinary course of its business for Petron or any of its subsidiaries.

The Joint Lead Managers have no direct relations with Petron in terms of ownership by either of their respective major stockholder/s, and have no right to designate or nominate any member of the Board of Directors of Petron.

The Joint Lead Managers have no contract or other arrangement with Petron by which it may return to Petron any unsold Preferred Shares.

BDO Capital & Investment Corporation was incorporated in the Philippines in December 1998. It is duly licensed by the SEC to operate as an investment house and was licensed by the SEC to engage in underwriting or distribution of securities to the public. As of December 31, 2013, its total assets amounted to ₱2.8 billion and its capital base amounted to approximately ₱0.8 billion. It has an authorized capital stock of ₱400 million, of which approximately ₱300 million represents its paid-up capital.

China Banking Corporation is one of the largest commercial banks in the Philippines in terms of assets and capital. Commencing operations on August 16, 1920, it is the first privately owned local commercial bank in the Philippines. It provides a wide range of banking services including investment banking, lending, treasury and foreign exchange trading, trust and investment management, wealth management, insurance and remittance.

RCBC Capital is a licensed investment house providing a complete range of capital raising and financial advisory services. Established in 1974, RCBC Capital has over 40 years of experience in the underwriting of equity, quasi-equity and debt securities, as well as in managing and arranging the syndication of loans, and in financial advisory. RCBC Capital is a wholly-owned subsidiary of the Rizal Commercial Banking Corporation and a part of the Yuchengco Group of Companies, one of the country's largest fully integrated financial services conglomerates.

SB Capital Investment Corporation is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital provides a wide range of investment banking services including financial advisory, underwriting of equity and debt securities, project finance, privatizations, mergers and acquisitions, loan syndications and corporate advisory services.

Standard Chartered Bank is a banking corporation duly organized and incorporated in England with limited liability by Royal Charter in 1853, and licensed to act as a banking institution under and by virtue of the laws of the Republic of the Philippines through its Branch Office, with principal offices in Makati City. Operating in the Philippines since 1872, Standard Chartered is a universal bank and is the longest established foreign bank in the country. The principal banking products include deposits, lending and related services, treasury and capital market operations, trade services, payments and cash management, credit cards, and custodial services.

Sale and Distribution

The distribution and sale of the Preferred Shares shall be undertaken by the Joint Lead Managers who shall sell and distribute the Preferred Shares to third party buyers/investors. The Joint Lead Managers are authorized to organize a syndicate of Co-Managers, soliciting dealers and/or selling agents for the purpose of the Offer.

Of the [●] Preferred Shares to be offered, 80% or [●] Preferred Shares are being offered through the Joint Lead Managers for subscription and sale to Qualified Institutional Buyers and the general public. The Company plans to make available 20% or [●] Preferred Shares for distribution to the respective clients of the 134 Trading Participants of the PSE, acting as Selling Agents. Each Trading Participant shall be allocated [●] Preferred Shares (computed by dividing the Preferred Shares allocated to the Trading Participants by 134), subject to reallocation as may be determined by the PSE. Trading Participants may undertake to purchase more than their allocation of [●] shares. Any requests for shares in excess of [●] may be satisfied via the reallocation of any Preferred Shares not taken up by other Trading Participants, or out of the Oversubscription Option, if exercised.

Prior to the close of the Offer Period, any Preferred Shares not taken up by the Trading Participants shall be distributed by the Joint Lead Managers directly to their clients and the general public. All Preferred Shares not taken up by the Trading Participants, general public and the Joint Lead Managers' clients shall be purchased by the Joint Lead Managers pursuant to the terms and conditions of the Underwriting Agreement.

Prior to the close of the Offer Period, the Joint Lead Managers in consultation with the Issuer, reserve the right, but not the obligation, to increase the Offer size up to an additional [●] million Preferred Shares, subject to the registration requirements of the SEC (the "Oversubscription Option").

Term of Appointment

The engagement of the Joint Lead Managers shall subsist so long as the SEC Permit to Sell remains valid, unless otherwise terminated pursuant to the Underwriting Agreement.

Manner of Distribution

The Joint Lead Managers shall, at its discretion, determine the manner by which proposals for subscriptions to, and issuances of, the Preferred Shares shall be solicited, with the primary sale of the Preferred Shares to be effected only through the Joint Lead Managers.

No shares are designated to be sold to specific persons.

Offer Period

The Offer Period shall commence at 9:00 a.m. on [●] and end at 5:00 p.m. on [●], or such other date as may be mutually agreed between the Company and the Joint Lead Managers.

Application to Purchase

All applications to purchase the Preferred Shares shall be evidenced by a duly completed and signed application to purchase, together with two fully executed signature cards authenticated by the Corporate Secretary with respect to corporate and institutional investors, and shall be accompanied by the payment in full of the corresponding purchase price of the Preferred Shares applied for, by check or by the appropriate payment instruction, and the required documents which must be submitted to the Joint Lead Managers.

Corporate and institutional purchasers must also submit a copy of SEC-certified or corporate secretary-certified true copy of the SEC Certificate of Registration, Articles of Incorporation and By-laws, General Information Sheet, or such other relevant organizational or charter documents, and the original or corporate secretary-certified true copy of the duly notarized certificate confirming the resolution of the board of directors and/or committees or bodies authorizing the purchase of the Preferred Shares and designating the authorized signatory/ies therefore. Individual Applicants must also submit a photocopy of any one of the following identification cards ("ID"): passport/driver's license, company ID, Social Security System/Government Service and Insurance System ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the selling bank.

An Applicant who is exempt from or is not subject to withholding tax or who claims reduced tax treaty rates shall, in addition, be required to submit the following requirements to the relevant Joint Lead Managers (together with their applications) who shall then forward the same to the Registrar and Depository, subject to acceptance by the Company as being sufficient in form and substance: (i) certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR on file with the Applicant as certified by its duly authorized officer; (ii) with respect to tax treaty relief, proofs to support applicability of reduced treaty rates, consularized proof of tax domicile issued by the relevant tax authority of the Preferred Shareholder, and original or SEC-certified true copy of the SEC confirmation that the relevant entity is not doing business in the Philippines; (iii) an original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Company and the Registrar and Depository of any suspension or revocation of its tax exempt status and agreeing to indemnify and hold the Company, the Registrar and Depository and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax; and (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

The Joint Lead Managers shall be responsible for accepting or rejecting any application or scaling down the amount of Preferred Shares applied for. The application, once accepted, shall constitute the duly executed purchase agreement covering the amount of Preferred Shares so accepted and shall be valid and binding on the Company and the Applicant. On the Banking Day following the Closing Date, the Joint Lead Managers shall advise all the Co-Managers and selling agents of any applications that were rejected and/or scaled-down, with copy to the Company.

Minimum Purchase

A minimum purchase of [●] shares shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of [●] shares.

Refunds

In the event an application is rejected or the amount of Preferred Shares applied for is scaled down, the Joint Lead Managers, upon receipt of such rejected and/or scaled down applications, shall notify the Applicant concerned that his application has been rejected or the amount of Preferred Shares applied for is scaled down, and refund the amount paid by the Applicant with no interest thereon. With respect to an Applicant whose application was rejected, refund shall be made by the Joint Lead Managers by making the check payment of the Applicant concerned available for his retrieval. With respect to an Applicant whose application has been scaled down, refund shall be made by the issuance by the concerned Joint Lead Manager of its own check payable to the order of the Applicant and crossed "Payees' Account Only" corresponding to the amount in excess of the accepted application. All checks shall be made available for pick up by the Applicant concerned at the office of the Joint Lead Managers to whom the rejected or scaled down application was submitted within five Banking Days after the last day of the Offer Period. The Company shall not be liable in any manner to the Applicant for any check payment corresponding to any rejected or scaled-down application which is not returned by the relevant Joint Lead Manager and; in which case, the relevant Joint Lead Manager and shall be responsible directly to the Applicant for the return of the check or otherwise the refund of the payment.

Secondary Market

Petron may purchase the Preferred Shares at any time without any obligation to make *pro rata* purchases of Preferred Shares from all Shareholders.

Registry of Shareholders

The Preferred Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as Registrar for the Offer, and lodged with PDTC as Depository Agent on Listing Date through PSE Trading Participants nominated by the Applicants. Applicants shall indicate in the proper space provided for in the Application Form the name of the PSE Trading Participant under whose name their Shares will be registered.

Legal title to the Shares will be shown in an electronic register of shareholders (the "Registry of Shareholders") which shall be maintained by the Registrar. The Registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Preferred Shares that is effected in the Registry of Shareholders (at the cost of the requesting Shareholder). The Registrar shall send (at the cost of the Company) at least once every quarter a Statement of Account to all Shareholders named in the Registry of Shareholders, confirming the number of Shares held by each Shareholder of record in the Registry of Shareholders. Such Statement of Account shall serve as evidence of ownership of the relevant Shareholder as of a given date thereof. Any request by Shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Shareholder.

Expenses

All out-of-pocket expenses, including, but not limited to, registration with the SEC, printing, publication, communication and signing expenses incurred by the Joint Lead Managers in the negotiation and execution of the transaction will be for Petron's account irrespective of whether the transaction contemplated herein is completed. Such expenses are to be reimbursed upon presentation of a composite statement of account. See "Use of Proceeds" on page 49 of the Prospectus for details of expenses.

DILUTION

The Preferred Shares will not have any dilutive effect as these are non-voting, non-convertible and non-participating.

CAPITALIZATION

The following table sets forth the consolidated capitalization of the Issuer as at June 30, 2014 and as adjusted to give effect to the Offer (assuming the Oversubscription Option is not exercised). This table should be read in conjunction with the Issuer's unaudited condensed consolidated interim financial statements as at June 30, 2014 and for the six-month periods ended June 30, 2013 and 2014 and notes thereto, included elsewhere in this Prospectus.

	As at 30 June 2014	
	Actual (unaudited)	Adjusted ¹ for maximum Offer size of [P10] Billion
<i>(in ₱ millions)</i>		
Short-term liabilities		
Short-term loans	105,625	105,625
Current portion of long-term debt - net	2,864	2,864
Total short-term debt	108,489	108,489
Long-term liabilities		
Long-term debt – net of current portion	65,810	65,810
Total long-term liabilities	65,810	65,810
Equity		
Equity Attributable to Equity Holders of the Parent:		
Capital stock	9,475	9,485
Additional paid-in capital	9,764	19,656
Undated subordinated capital securities	30,546	30,546
Retained earnings	43,272	43,272
Reserve for retirement plan	2,242	2,242
Other reserves	(419)	(419)
Total Equity Attributable to Equity Holders of the Parent	94,880	104,782
Non-controlling interests	16,937	16,937
Total Equity	111,817	121,719
Total capitalization²	286,116	296,018

Notes:

- (1) Adjusted amount as at June 30, 2014 includes proceeds of ₱9.9 billion of the Offer, after deduction of commissions and expenses.
- (2) Total capitalization is the sum of debt and equity.

THE COMPANY

OVERVIEW

The Company was incorporated under the Philippine Corporation Law and registered with the SEC on December 22, 1966. It has a market capitalisation of ₱109.3 billion as at August 29, 2014.

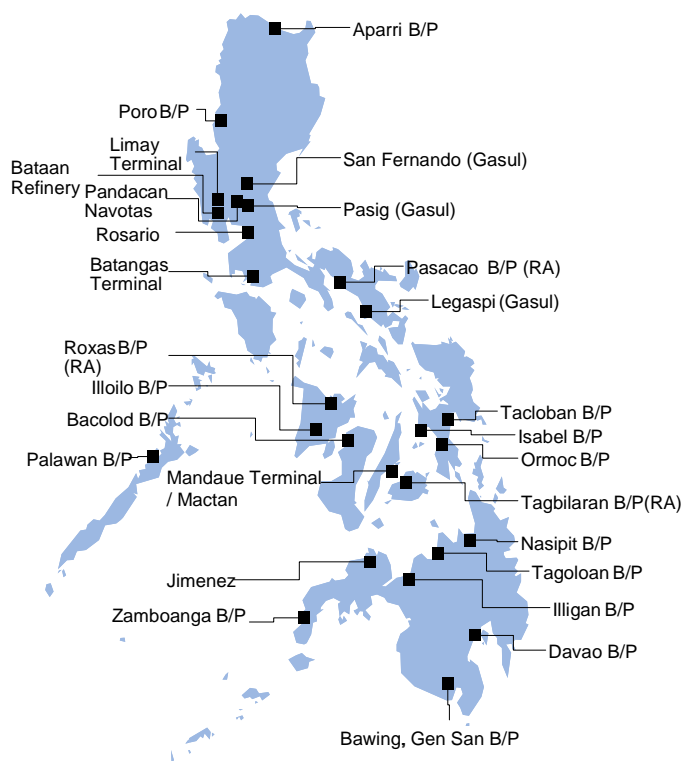
The Company refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, the Company is the largest integrated oil refining and marketing company, with an overall market share of 36.5% of the Philippine oil market in 2013 in terms of sales volume per Company estimates based on Company information and data from the DOE. The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream business in that country. The Company had a 16.4% share of the Malaysian retail market for the six months ended June 30, 2014, per Company estimates based on Company information and data from Metrix Research, a market research consultant appointed by Malaysian retail market participants to compile the industry data.

The Company's ISO 14001-certified Limay Refinery in Limay, Bataan in the Philippines, which has a crude oil distillation capacity of 180,000 barrels per day ("bpd"), processes crude oil into a full range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, fuel oil and petrochemical feedstocks such as benzene, toluene, mixed xylene and propylene. In the fourth quarter of 2010, the Company launched Phase 2 of the Refinery Master Plan ("RMP-2") for the Limay Refinery, a US\$2 billion investment project that will enable the Limay Refinery to further enhance its operational efficiencies and convert its current fuel oil production into White Products (i.e., diesel, gasoline, jet fuel, kerosene and LPG), significantly increase the Company's production of petrochemicals, and make the Company the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard. RMP-2 is expected to be completed by end 2014.

From the Limay Refinery, the Company moves its products, mainly by sea, to more than 30 depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network in the Philippines. The network comprises of 12 depots and terminals in Luzon, eight in Visayas and seven in Mindanao, as well as two airport installations in Luzon, one in Visayas and two in Mindanao. The Company also has presence in airport installations in Palawan and Pampanga in Luzon, Aklan, Malay Aklan and Iloilo City in Visayas, as well as in General Santos City and Zamboanga City in Mindanao. Through this nationwide network, the Company supplies its various petroleum products such as gasoline, diesel, fuel oil, and LPG to its customers. The Company also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

The map below shows the geographic coverage of the Company's depots and terminals in the Philippines as of June 30, 2014.

Geographic coverage of the Company's depots and terminals in the Philippines



Note:

- (1) Map indicates depots and terminals.
- (2) B/P refers to bulk plants (depots).
- (3) RA indicates that a rationalization agreement is in place in relation to the relevant depot, which is a contract between the owner-operator of the depot and another oil company regarding product supply and the use of the facilities to rationalize operations and reduce costs.

Through its network of close to 2,200 retail service stations in the Philippines as of June 30, 2014, the Company sells gasoline, diesel and kerosene to motorists and to the public transport sector. The Company also sells its LPG brands “*Gasul*” and “*Fiesta Gas*” to households and other consumers through its extensive dealership network.

The Company also manufactures lubricants and greases through its blending plant in Pandacan, in the Philippines, and these are sold through the Company’s service stations and sales centers. The Company owns and operates a fuel additives blending plant in the Subic Bay Freeport Zone in the Philippines, which has a tolling agreement with Innospec, a global fuel additives supplier. Regional customers of Innospec and the Company’s own requirements are served from the output of the Subic plant.

In recent years, the Company has diversified into petrochemicals, adding a mixed xylene recovery unit to the Limay Refinery in 2000 and a propylene recovery unit in 2008. Its benzene-toluene extraction unit became operational in May 2009. In March 2010, the Company acquired a 40% stake in PAHL, owner of PPI. As of end-2013, the Company had a 45.9% stake in PAHL. PPI operated a polypropylene plant located in Mariveles, Bataan in the Philippines. On July 1, 2014, PPI’s polypropylene business was acquired by the Company to enhance efficiency.

On March 30, 2012, the Company completed its acquisition of ExxonMobil’s integrated downstream business in Malaysia for an aggregate purchase price of US\$577.3 million. With this acquisition, the Company has extended its portfolio of oil refining and marketing businesses outside the Philippines as it became the owner and operator of an 88,000 bpd refinery in Port Dickson, Malaysia, eight product terminals and a network of approximately 550 retail service stations in Malaysia, which are being

rebranded under the *Petron* brand, a process that is expected to be completed in the first quarter of 2015. As of end June 2014, the Company has a network of approximately 560 service stations, including 10 newly-built service stations under the *Petron* brand.

The Company's products are primarily sold to customers in the Philippines and Malaysia. The Company also exports various petroleum products and petrochemical feedstocks, including low-sulfur waxy residue, fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

In the first six months of 2014, the Company's sales were ₱258.2 billion, compared with ₱218.8 billion in the first six months of 2013. The Company's net income in the first six months of 2014 was ₱3.0 billion, compared with ₱1.1 billion in the first six months of 2013.

The Company's common shares and preferred shares are listed for trading on the PSE under the symbols "PCOR" and "PPREF," respectively.

STRENGTHS

The Company believes that its principal competitive strengths include the following:

Operations in markets with favorable industry dynamics

The Company operates as an integrated oil refining and marketing company in the Philippines and Malaysia, both of which the Company believes have favorable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices and foreign exchange reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an APM that provides stable returns to fuel retailers. According to the Economist Intelligence Unit, both economies are projected to experience strong economic growth to 2015, which is expected to contribute to increased domestic demand for refined products and lead to a further supply shortfall. Both the Philippines and Malaysia are importers of finished petroleum products. The Company believes it is well-positioned to benefit from this supply shortfall with its current production capacities of 180,000 and 88,000 bpd in the Philippines and Malaysia respectively, giving it a significant competitive advantage against other competitors.

Market leadership in the Philippine downstream sector

With an overall market share of approximately 36.5% of the domestic oil market in 2013 per Company estimates based on Company Information and data from the DOE, the Company believes it is the leader in the Philippine oil industry, ahead of the other two major oil companies operating in the country. The Company also believes it is the market leader based on domestic sales volume in the retail trade as well as in the industrial and LPG market segments. It is a strong second in the lubricants and greases market segment as compared with the market shares of the other two major Philippine oil companies.

In the Philippines, the Company owns and operates the largest oil refinery complex. With 180,000 bpd capacity, the Company's refinery has a current capacity that is 70,000 bpd higher compared to the only other operating refinery.

The Company has the most extensive distribution system in the Philippines, which allows the Company to operate and serve its customers across the country. This distribution system covers a network of over 30 depots, terminals, and airport installations that reaches most key points in the Philippines. Given the challenges of distribution across the Philippine archipelago, this capability plays a significant role in securing the Company's leading position in the Philippines. Since 2011, the Company has focused on expanding its distribution network to accommodate increasing demand across the country, and will continue to invest to expand its network. The Company's strong participation in the different market trades such as retail, LPG and bulk industrial customer operations also plays a large role in its unmatched success in the Philippine downstream sector. As of June 30, 2014, the Company maintains close to 2,200 service stations nationwide, more than any other market participant, and intends to grow this number to serve the increased production from RMP-2. The Company believes it is the leader in the LPG segment

with more than 1,000 branch stores. The Company's industrial sales cover more than 1,100 direct industrial accounts and serves approximately 38.7% of the industrial sector.

Established position in the Malaysian market

The Company has acquired an established position in the Malaysian downstream sector through its acquisition of ExxonMobil's downstream business in Malaysia, which has a recognized health, safety and environmental track record. This provides geographic diversification to its portfolio, an additional platform to expand its business and added stability to its operations.

JBC Energy ("JBC") estimates that the Malaysian market will continue to grow annually by approximately 3%. At its current market size of approximately 700,000 bpd, as estimated by JBC, it is more than double the size of the Philippine market. Per Company estimates based on Company information and data from Metrix Research, for the first six months ended June 30, 2014, the Company has a 16.4% market share of the Malaysian retail segment.

The Company's marketing and distribution infrastructure in Malaysia also puts it in a position to capture a growing share of the market. The Company's network in Malaysia includes approximately 560 service stations, 260 convenience stores and 8 product terminals in both Peninsular and East Malaysia. It also has presence in the aviation business with a 20% ownership of a multi-product pipeline to Kuala Lumpur International Airport ("KLIA"). Per Company estimates based on Company information and data from Metrix Research estimates, for the first three months ended March 31, 2014, the Company supplies 68% of the unbranded stations, and has 11.7% market share in the LPG segment.

The retail and selected sectors in Malaysia operate under a regulated market with subsidies, quotas and the APM, which provides for a fixed oil company margin and a fixed operating cost recovery. See "Regulatory and Environmental Matters – Malaysia – Sale and Pricing of Refined Petroleum Products". This regulated environment provides stability to the Company's Malaysian operations in such sectors.

Geared towards the production of high-margin products

On the production side, the Company has developed and maintained a strong core base of top-of-the-line petroleum products, while consistently producing new and higher margin products. In recent years, the Company has focused increasingly on petrochemical feedstock, such as propylene, benzene, toluene and xylene, shifting production from fuel oil or LPG to these higher value products.

In line with this objective, the Company embarked on the RMP-2 project to upgrade the Limay Refinery. RMP-2 seeks to convert all current fuel oil production into a broad range of White and petrochemical products. The upgraded production capability is expected to improve the basic economics of the Limay Refinery thereby allowing it to run at close to full capacity from the current level of about 100,000 bpd.

Strong principal shareholder in San Miguel Corporation

SMC is among the largest and most diversified Philippine conglomerates, generating about 6.5% of the country's gross domestic product ("GDP") in 2013. Its wide range of businesses includes beverages, food, packaging, fuel and oil, energy, infrastructure, telecommunications, real estate and aviation. As of August 31, 2014, SMC holds, directly and indirectly, an effective 68.26% of the Company's outstanding common equity. See "Ownership and Corporate Structure" on page 65.

The Company believes that it benefits from its relationship as a key material subsidiary of SMC, primarily by realizing synergies, including the provision of fuels for SMC's expanding power generation business, SMC's infrastructure business and its various production facilities as well as cross-marketing opportunities with SMC's consumer and energy-related businesses. The Company also believes that SMC's strong balance sheet and international reach and relationships increase its leverage and bargaining power with suppliers and financial institutions as well as enhance its sources of funding for its capital expenditure projects.

AREAS OF STRATEGIC FOCUS

The Company's principal strategies are set out below:

Further increase its market share in the Philippines and in Malaysia

The Company intends to utilize its leading market position and extensive distribution network in the Philippines as a platform for maximizing its revenue potential. It believes that such platform is an advantage of the Company over most of its competitors in the country.

The Company believes that both markets are still underserved and intends to grow its market position by: (i) increasing its retail outlets for fuels and LPG to capture industry growth and improve market penetration; (ii) introducing new products with differentiated and superior qualities; (iii) developing and expanding its logistical facilities, including the addition of new aviation facilities in tourist destinations; (iv) building more LPG re-filling and auto-LPG facilities; (v) continuing to expand its non-fuel businesses by leasing additional service station spaces to food chains, coffee shops and other consumer services to provide "value conscious" customers with a one-stop full service experience; and (vi) intensifying its dealer and sales personnel training to support the Company's retail business and continuing service station network expansion.

In addition, the Company seeks to maintain and further develop its significant position in both markets by reinforcing business relationships with existing customers such as through enhanced loyalty programs in the Philippines and Malaysia.

Focus on production of high margin refined products and petrochemicals

Over the years, the Company has made significant investments in conversion and petrochemical facilities and is focused on increasing production of White Products and petrochemicals while minimizing production of low margin fuel products. In recent years it has focused increasingly on the production of new higher margin petrochemical feedstock, such as propylene, mixed xylene, toluene and benzene, and shifted production from lower margin fuel oils to higher margin products. The RMP-2 program exemplified this strategic focus which aims to increase revenues and reduce costs and place the Limay Refinery's utilization, processing and energy efficiency at par with more advanced refineries in the region and improve its competitiveness. Going forward, the Company intends to proactively invest in upgrading its production capability.

Continue investments to increase operational efficiencies and widen market reach

The Company has undertaken a number of strategic projects aimed at increasing operational efficiency and profitability such as the RMP-2 and the expansion of the Company's service station network.

The Company also intends to pursue cost-efficient opportunities to enhance efficiency and reduce production costs through supply chain improvements and enhancements to its existing facilities, through a range of initiatives including: (i) optimizing its crude oil mix to produce more profitable products from the existing refining configuration and expanding its crude oil supply sources in addition to its major crude oil suppliers; (ii) reducing inventory levels in the Philippines by sourcing feedstock from suppliers located near the Limay Refinery; (iii) enhancing receiving and storage facilities to attain greater sourcing flexibility and support new growth areas; (iv) managing crude oil freight costs and availability of terminal-compliant vessels with contracts of affreightment that guarantee cost competitiveness with the spot market; and (v) reducing distribution costs through rationalization of the depot network, joint operations with other companies and optimized utilization of its marine and tank truck fleet. The Company also expects to continue utilizing operational synergies with SMC's network, products and services.

Selective synergistic acquisitions

In addition to organic growth, the Company will continue to consider selective opportunities to expand both within and outside the Philippines through strategic acquisitions consistent with its focuses on the Philippine market and creation of operational synergies. For example, in March 2010, the Company acquired a 40% stake in PAHL, which was subsequently increased to 45.9% in December 2012. PAHL owns PPI, which operated a polypropylene plant located approximately five kilometers from the Limay Refinery. The polypropylene plant's primary feedstock, propylene, is supplied by the Limay Refinery. The Company's share in the incremental value is derived from converting propylene into polypropylene resin. On July 1, 2014, PPI's polypropylene business was acquired by the Company to enhance efficiency.

In addition, on March 30, 2012, the Company completed its acquisition of ExxonMobil's downstream business in Malaysia, extending its portfolio of oil refining and marketing businesses outside the Philippines. This acquisition is providing the Company with potential synergies in terms of manpower skills and technical knowledge, as well as potential product swap arrangements with suppliers who operate in both the Philippine and Malaysian markets.

CORPORATE HISTORY AND MILESTONES

The Company was incorporated in 1966 under the name "Esso Philippines Inc." and was later renamed "Petrophil Corporation" ("Petrophil"). Between 1987 and 1988, Petrophil, Bataan Refining Corporation and Petron TBA Corporation were merged into one entity, and the surviving corporation was renamed "Petron Corporation". In 1994, the Philippine National Oil Company ("PNOC") sold 40% of its shares in the Company to Aramco Overseas Company B.V. ("AOC"), a wholly owned subsidiary of Saudi Aramco, and 20% to the public in an initial public offering. The Company's common shares were listed on the PSE in 1994. In 2008, AOC sold its shares in the Company to the Ashmore group, and, following a series of share transfers, at the end of 2008, the Company was majority-owned by the Ashmore group through its subsidiaries, specifically, 50.1% by SEA Refinery Corporation ("SRC") and 40.47% by SEA Refinery Holdings B.V. ("SEA BV").

In 2008, SMC and SEA BV entered into an option agreement granting SMC the option to buy 100% of SEA BV's ownership interest in SRC. In April 2010, SMC exercised its option to purchase a 40% equity interest in SRC. SMC subsequently acquired an additional 1.97% of the Company's common shares pursuant to a tender offer.

In July 2010, PCERP acquired from SEA BV 24.28% of the common shares in the Company.

In August 2010, SMC purchased approximately 16% of the outstanding common shares in the Company from SEA BV, and in October 2010 SMC acquired from the public 0.006% of the Company's outstanding common shares. SMC subsequently exercised its option to purchase the remaining 60% of SRC from SEA BV in December 2010, increasing its effective ownership of the outstanding and issued common shares of the Company to 68.26%.

In January 2012, PCERP sold 7.4% of the Company's outstanding common shares to the public. In December 2012, PCERP sold 2.08% of the Company's outstanding common shares to Credit Suisse (Singapore) Limited. In March 2014, PCERP sold an additional 5.02% of the Company's common shares to the public.

In March 2012, the Company acquired 100% of the voting shares in each of ExxonMobil Malaysia Sdn. Bhd. and ExxonMobil Borneo Sdn. Bhd. from Mobil International Petroleum Corporation and ExxonMobil International Holdings Inc., respectively. The acquired companies were subsequently renamed "Petron Fuel International Sdn. Bhd." and "Petron Oil (M) Sdn. Bhd.", respectively.

Also in March 2012, the Company acquired 65% of the voting shares of Esso Malaysia Berhad ("Esso") from ExxonMobil International Holdings Inc. The Company subsequently acquired an additional 8.4% of the voting shares of Esso in May 2012 pursuant to a mandatory takeover offer. In July 2012, Esso was renamed "Petron Malaysia Refining & Marketing Berhad".

In August 2014, PCERP further sold an additional 4.05% of the Company's total outstanding shares to the public.

Certain key dates and milestones for the Company's business are set forth below.

- 1957** Standard Vacuum Oil Company was granted a concession to build and operate the Limay Refinery in Limay, Bataan owned by Bataan Refining Corporation.
- 1961** The Limay Refinery commenced commercial operations with a capacity of 25,000 bpd.
- 1998** The lubricant oil blending plant in Pandacan, Manila was modernized, replacing facilities that were built in 1968.
- 2000** The mixed xylene plant in the Limay Refinery commenced operations, marking the Company's entry into the petrochemicals market.
- 2008** The petrofluidized catalytic cracking ("PetroFCC") unit in the Limay Refinery commenced operations enabling the Company to convert fuel oil into higher value products such as LPG, gasoline and diesel.

The propylene recovery unit in the Limay Refinery commenced operations enabling the recovery of propylene from the LPG produced by the PetroFCC unit.

The fuel additives blending plant in the Subic Freeport Zone commenced operations, making the Company the exclusive blender of Innospec's additives in the Asia Pacific region.

- 2009** Completion of the debottlenecking of the Company's continuous catalyst regeneration reformer unit and its mixed xylene plant, enabling the recovery of more mixed xylene.

The benzene-toluene extraction unit in the Limay Refinery commenced operations, enabling the Company to produce benzene and toluene.

- 2010** The Company acquired a 40% stake in PAHL, owner of PPI, which was diluted to 33% when PAHL issued new shares to another investor in June 2010. The Company has an option to increase its stake in PAHL up to 51%. PPI operates a polypropylene plant located in Mariveles, Bataan in the Philippines.

The Company acquired a 35% stake in Manila North Harbour Port Inc. ("MNHPI"), forming a joint venture between the Company and Harbour Centre Port Terminal, Inc.,.

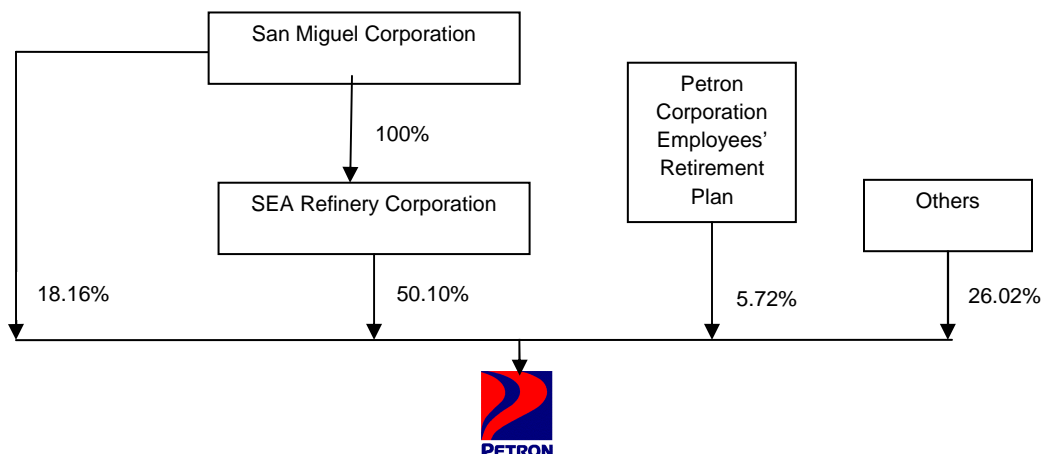
- 2011** PPI commissioned a rehabilitated polypropylene plant in Mariveles, Bataan, which enabled the Company to capture the incremental margin from converting its propylene production into polypropylene.

- 2012** The Company acquired ExxonMobil's downstream business in Malaysia, extending its portfolio of oil refining and marketing businesses outside the Philippines.

The Company converted certain loans it had made to PAHL to additional equity, which increased its stake in PAHL to 45.9%.

OWNERSHIP AND CORPORATE STRUCTURE

Petron is a publicly listed company jointly owned by SEA Refinery Corporation (“SRC”), SMC, Petron Corporation Employees’ Retirement Plan (“PCERP”) and the general public. The chart below sets forth the ownership structure of the common shares of the Company as of the date of this Prospectus.



SRC is a Philippine company wholly-owned by SMC.

SMC is among the largest and most diversified Philippine conglomerates. Its wide range of businesses includes beverages, food, packaging, fuel and oil, energy, infrastructure, telecommunications, real estate and aviation.

PCERP is a tax qualified and fully funded defined pension plan covering all permanent, regular and full-time employees of the Company.

Recent Developments

The Board of Trustees of PCERP, a shareholder of the Company, sold to the public its holdings of 380,000,000 common shares of the Company representing 4.05% of the Company’s total outstanding common shares through the facilities of the PSE, pursuant to a Placement Agreement dated August 18, 2014. The sale brought down PCERP’s ownership of the Company’s total outstanding common shares from 9.77% to 5.72%. Correspondingly, the percentage of common shares held by the public rose from 21.97% to 26.02%.

Subsidiaries, Associates and Holding Companies

The table below sets forth the Company’s equity interest in its primary operating subsidiaries, associates and holding companies as of the date of this Prospectus, as well as their principal businesses and places of incorporation. The Company has two insurance subsidiaries, Petrogen and Ovincor, which were established to support the insurance requirements of the Company and its allied business partners, including contractors, suppliers, haulers and dealers. The Company also has marketing and trading subsidiaries and interests in realty companies to support its core business.

Name of Company	Place of Incorporation	Controlling Interest	Principal Business
Overseas Ventures Insurance Corporation Ltd. ("Ovincor")	Bermuda	100%	Reinsurance
Petrogen Insurance Corporation ("Petrogen")	Philippines	100%	Insurance
Petron Freeport Corporation ("PFC")	Philippines	100%	Wholesale or retail sale of fuels, operation of retail outlets, restaurants and convenience stores, and the manufacture of fuel additives
Petron Marketing Corporation ("PMC")	Philippines	100%	Wholesale or retail sale of fuels, operation of retail outlets, restaurants, convenience stores with pharmaceutical items, and bakeries
Petron Singapore Trading Pte. Ltd. ("PSTPL")	Singapore	100%	Procurement of crude oil, trading of petroleum and petrochemical products, vessel chartering and risk management
Petron Oil & Gas International Sdn. Bhd.	Malaysia	100% indirect interest	Investment holding
Petron Malaysia Refining & Marketing Bhd. ("PMRMB")	Malaysia	73.4% indirect interest (the other 26.6% is owned by the public)	Manufacturing and marketing of petroleum products in Peninsular Malaysia
Petron Fuel International Sdn. Bhd. ("PFI Malaysia")	Malaysia	100% indirect interest	Marketing of petroleum products in Peninsular Malaysia
Petron Oil (M) Sdn. Bhd. ("POM")	Malaysia	100% indirect interest	Marketing of petroleum products in East Malaysia

New Ventures Realty Corporation (“NVRC”)	Philippines	40% (the other 60% is owned by a trustee bank of PCERP)	Purchase and sale of properties suitable for use as service station sites, bulk plants or sales offices
Manila North Harbour Port Inc. (“MNHPI”)	Philippines	35%	Operation and management of the Manila North Harbor passenger and cargo terminal

PRODUCTS

The Company’s products are categorized into fuels, automotive oil and lubricant products, industrial oil and lubricant products, marine oil and lubricant products, greases, asphalts, special products and aftermarket specialties.

The list below sets forth each of the Company’s fuels products, as well as a description of each product.

Philippines

PETRON GASUL is a premium clean-burning LPG consisting of a mixture of propane and butane gases. It is used as fuel for cooking, lighting and industrial applications and is sold in 2.7-kg, 11-kg, 22-kg and 50-kg cylinders and in bulk.

FIESTA GAS is an economy LPG consisting of a mixture of propane and butane gas. It is used as fuel for industrial heating, as well as cooking and lighting applications and is sold in 2.7-kg, 11-kg, 22-kg and 50-kg cylinders.

PETRON XTEND AUTOGAS is a clean burning automotive LPG used as fuel for LPG-fuelled gasoline engines.

PETRON GAAS is a refined water-white kerosene with clean burning qualities. It is used as fuel for stoves, lamps and other domestic uses.

PETRON BLAZE 100 Euro 4 is the Philippines’ first 100 octane and Euro-4 level premium plus gasoline. It meets European fuel quality standards for Euro-4 technology vehicles and exceeds the Philippine National Standards (“PNS”) Euro-4 PH specifications. It provides optimum performance in terms of power, acceleration, and combustion efficiency. It contains 90% less sulfur and more than 50% less benzene, which make it a very environmentally friendly product.

PETRON XCS is a 95 Research Octane Number (“RON”) premium gasoline that contains a complete combustion additive system that delivers quick engine response, increased engine protection and optimal fuel efficiency.

PETRON XTRA ADVANCE (RON 93) and **PETRON SUPER XTRA GASOLINE** (RON 91) were developed in compliance with the new PNS for ethanol-blended gasoline. These two grades of regular gasoline meet the ethanol-blended regular gasoline standard set by the DOE. These products are formulated to give enhanced performance in terms of engine cleanliness, combustion efficiency, and corrosion control.

PETRON TURBO DIESEL is an advanced diesel designed for high performance diesel engines. It has high ignition quality and contains powerful cleaning additives and combustion enhancer to provide maximum power and efficiency.

PETRON DIESEL MAX is a premium diesel fuel formulated with robust multifunctional additive system for improved fuel economy and reduced emissions.

PETRON AVIATION GASOLINE is a low-lead, high-octane aviation gasoline for aircraft with reciprocating engines.

PETRON JET A-1 is a highly-purified kerosene-type aviation fuel used by aircraft with turbo prop and turbojet engines. It has good combustion characteristics suitable for low-temperature operation at high altitude.

PETRON INDUSTRIAL DIESEL FUEL is a “dual-purpose” fuel that is recommended as a boiler fuel in domestic or light industrial installations with pressure jet burners and as a diesel fuel for off-road heavy equipment.

PETRON FUEL OIL is a low cost residual fuel, commonly referred to as “bunker fuel”, used in industrial applications, such as power plant engines, boilers, furnaces and marine engines.

INTERMEDIATE FUELS are blended from diesel and bunker fuels, classified into different grades as specified by the universally-adopted System International metric system of measurement. They are intended for use in international marine vessels.

SPECIAL FUEL OILS are blended from diesel and bunker fuels, classified into special fuel oil grades based on viscosity ranges. They are intended for use in domestic marine vessels.

LSFO-1 is a special type of bunker fuel with 1% maximum sulfur content. It is suitable for industrial and marine applications where low-sulfur fuel is required to reduce emissions of sulfur dioxide.

Malaysia

PETRON BLAZE 97 is a high-performance unleaded gasoline with an octane rating of 97+. It contains a special blend of multi-functional additive, combustion enhancer and friction modifier, resulting in superior combustion and performance.

PETRON BLAZE 95 is a high-performance unleaded gasoline with an octane rating of 95+. It contains a special blend of multi-functional additive, combustion enhancer and friction modifier, resulting in superior combustion and performance.

PETRON B5 is a premium diesel fuel with 5% Palm Oil Methyl Ester (“POME”). It contains a robust multifunctional detergent additive and a smoke reducing agent to provide fuel economy and reduced exhaust emissions. It also has the ability to maintain and improve fuel injection system cleanliness through unsurpassed detergency characteristics.

PETRON DIESEL is a diesel fuel suitable for use in automotive diesel engines, as well as industrial applications. The fuel meets the Malaysian diesel standard, MS 123.

PETRON GASUL is a premium clean-burning LPG consisting of a mixture of propane and butane gases. It is used as fuel for cooking, lighting and industrial applications and is sold in 12-kg and 14-kg cylinders.

PETRON KEROSENE is a refined kerosene with clean and efficient burning qualities.

PETRON JET A-1 is a highly-purified kerosene-type aviation fuel used by aircraft with turbo prop and turbojet engines. It has good combustion characteristics suitable for low-temperature operation at high altitude.

LOW SULFUR WAXY RESIDUE is a low-sulfur bottom/residue from refinery processing which is used as a feedstock for chemical plants or as fuel for industrial boilers or heaters.

Others

Automotive oil and lubricant products include the Company's extensive line of automotive oil and lubricants for different types of vehicle engines and road conditions.

Industrial oil and lubricant products include the Company's broad range of oils and lubricants designed for extreme temperatures and operating conditions for various industrial uses.

Marine oil and lubricant products include the Company's broad range of oils designed for lubrication of various types of diesel engines used in the maritime industry.

Greases include the Company's grease products used for the protection of equipment and the reduction of wear on gears and other components of vehicle and industrial engines.

Asphalts include the Company's asphalt products used for road paving, sealing applications, undercoating, waterproofing and rust proofing.

Special products include the Company's products designed for special applications, such as process oils, thermal oils, protective coatings, steel case moulding, tire manufacturing, processing of natural fibres and other non-lubricating applications.

Aftermarket specialties include products such as brake fluid coolants, diesel additives, engine oil and gasoline additives, sprayable grease, car shampoos and multi-purpose sprays.

Petrochemicals

Diversifying into petrochemicals, the Company built a mixed xylene recovery unit in 2000, a propylene recovery unit in 2008 and a benzene-toluene extraction unit in 2009. The Company also rehabilitated a polypropylene plant, which became fully operational in 2011. The list below sets forth each of the Company's petrochemical products, as well as a description of each product.

Xylene is used to make polyester fibres, packaging materials, bottles and films.

Propylene/Polypropylene - Propylene is the raw material used for the production of polypropylene. **Polypropylene** is used to manufacture food packaging plastics, car bumpers, computer housings, appliance parts and fibres.

Benzene is an aromatic hydrocarbon used to produce numerous intermediate petrochemical compounds, such as styrene, phenol, cyclohexane, alkylbenzenes, and chlorobenzenes, which are used to produce plastics, pharmaceuticals, pesticides and other chemicals. It is also used as a solvent for paints and natural rubber.

Toluene is used as a solvent in paints, inks, adhesives, and cleaning agents, as well as in chemical extractions. It is also used in the chemical synthesis of benzene, urethane foams and other organic chemicals, and in the production of pharmaceuticals, dyes and cosmetic nail products.

Other Refinery Products

Naphtha is widely used as a motor gasoline ("mogas") component. It is also used as feedstock in steam crackers to produce olefins. Like some petrochemicals, it is also used as solvent for cleaning applications and also as a diluent in the mining industry.

Molten sulfur is a by-product of the Limay Refinery. It is used as precursor to different chemical compounds with a wide variety of applications from sulfuric acid to fertilizers and pharmaceutical drugs.

SCOPE OF BUSINESS

Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products. It sells a full range of refined petroleum products including LPG, gasoline, diesel, jet fuel, kerosene, industrial fuel oil, solvents, asphalts, and petrochemical feedstocks such as mixed xylene, propylene, benzene and toluene.

The major markets in the petroleum industry are Retail, Industrial, LPG and Lube Trades. Petron sells its products to both industrial end-users and through a nationwide network of service stations, LPG dealerships, sales centers and other retail outlets. It also supplies jet fuel at key airports to international and domestic carriers.

In line with the Company's efforts to increase its presence in the regional market, it exports various petroleum and non-fuel products to Asia-Pacific countries such as Cambodia, South Korea, Taiwan, China, Brunei, Singapore, Malaysia, Hong Kong, Thailand and Indonesia. Exports, which generate dollar inflows for the Company, provide a natural hedge against losses which may arise from fluctuations in the foreign exchange rate.

Petron also operates a lube oil blending plant at its Pandacan Terminal. Its fuel additives blending plant in Subic Bay Freeport supplies the Company's requirements and serves as Asian supply hub of Innospec.

All of the Company's permits and licenses are valid and subsisting.

PRODUCTION

Production Facilities

The Philippines

In the Philippines, the Company owns a petroleum refinery complex located in Limay, Bataan. The Limay Refinery has a crude oil distillation capacity of 180,000 bpd. Its facilities include three crude oil distillation units, a vacuum pipestill unit, the PetroFCC unit, a propylene recovery unit, a continuous catalyst regeneration reformer unit, a semi-regenerative reformer unit, two naphtha hydrotreaters, two LPG treaters, an isomerization unit, a mixed xylene recovery unit, a benzene-toluene extraction unit, sour water facilities, a kerosene merox treater, two gas oil hydrotreater units, a sulfur recovery unit, a nitrogen plant, waste water treatment facilities, other support facilities, bulk asphalt receiving facilities, several crude oil storage tanks, as well as several refined petroleum products storage tanks. It has its own piers and two offshore berthing facilities, one of which can accommodate very large crude oil carriers.

The Limay Refinery is capable of producing a broad range of petroleum products such as LPG, gasoline, jet fuel, diesel and fuel oil. In 2000, the Limay Refinery commenced petrochemical production with the commercial operation of its mixed-xylene plant. The Limay Refinery started producing propylene in 2008 with the commissioning of its propylene recovery unit, which has a demonstrated capacity of 130,000 tons per year of polymer-grade propylene. Also in 2008, the Limay Refinery started the construction of the benzene-toluene extraction unit to further expand its capability to produce petrochemical feedstock. The benzene-toluene extraction unit, which became operational in May 2009, is designed to produce benzene and toluene at respective capacities of 24,000 and 158,000 tons per year. In early 2011, PPI commissioned a rehabilitated polypropylene plant in Mariveles, Bataan, to capture the incremental margin from converting the Limay Refinery's propylene production into polypropylene. The facility has the capacity to produce 160,000 metric tons ("MT") of polypropylene resin annually. On July 1, 2014, the operation of the polypropylene plant was integrated into the Limay Refinery's operation.

The Company also completed a fuel additives blending plant in the Subic Bay Freeport Zone in July 2008 with a capacity of 12,000 MT per year, which serves the fuel additive requirements of Innospec's customers in the Asia-Pacific region. The Company is Innospec's exclusive blender in the Asia-Pacific region.

Malaysia

In Malaysia, the Company owns a petroleum refinery complex located in Port Dickson, Negeri Sembilan. The Port Dickson Refinery has a crude oil distillation capacity of 88,000 bpd. Its facilities include a crude oil distillation unit, a naphtha hydrotreating unit with a processing capacity of 26,000 bpd, two semi-regeneration reformer units with a combined processing capacity of 19,000 bpd and a kerosene hydrotreating unit with a processing capacity of 12,000 bpd. The Port Dickson Refinery also has waste water treatment facilities, a boiler, a cooling water plant, flare and safety relieving facilities, five crude oil storage tanks with a total capacity of approximately one million barrels, 20 refined petroleum products storage tanks and five spheres for LPG storage with a total capacity of approximately 1.1 million barrels.

The Port Dickson Refinery produces a range of products, including LPG, naphtha, gasoline, jet fuel, diesel and low sulfur waxy residue ("LSWR"). With the exception of LSWR, these products are intended to meet domestic demand in Malaysia. The Company exports its LSWR to various customers in the Asia-Pacific region.

Crude oil for the Port Dickson Refinery is received by means of a single buoy mooring ("SBM") and crude pipeline facilities that are jointly owned with Shell Refining Company (Federation of Malaya) Berhad ("SRC (FOM)") through an unincorporated joint venture. The SBM is operated by SRC (FOM), and the Company shares the operating costs equally with SRC (FOM). The Company also pays a levy of one-third of the overhead and administrative charges incurred by SRC (FOM) in connection with the operation of the SBM.

Raw Materials

Philippine Operations

The main raw material used in the Limay Refinery's production process is crude oil. The Company acquires crude oil for the Limay Refinery from foreign sources, through a combination of term purchase contracts and spot market purchases. In 2013 and the first six months of 2014, the Company purchased approximately 79% and 70%, respectively, of its total crude oil supply requirements for the Limay Refinery from the Saudi Aramco. Petron has a term contract with Saudi Aramco entered into in 2008 to purchase various Saudi Aramco crudes. The pricing and payment mechanisms under this contract are consistent with Saudi Aramco's standard practice for its Far East customers. Pricing is determined through a formula that is linked to international industry benchmarks, and payment is on an open account basis and secured by an irrevocable standby letter of credit. The contract is automatically renewed annually unless either the Company or Saudi Aramco elects to terminate the contract upon at least 60 days' written notice prior to its expiration date.

In 2013 and the first six months of 2014, the Company also purchased approximately 3.4% and 3.5%, respectively, of its total crude oil for the Limay Refinery from Petroliam Nasional Berhad ("Petronas") pursuant to a one-year contract for Malaysian crude oil. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is renewable subject to mutual agreement of the parties. Several other crude oils are purchased on a spot basis from various suppliers.

The Limay Refinery is capable of processing other crude oils. The Company's crude oil optimization strategy includes the utilization of various types of crude oil, other than those supplied by Saudi Aramco and Petronas, to provide additional value to the Company.

The Company is the sole buyer of all the ethanol produced by the Philippine-based San Carlos Bioenergy, Inc. pursuant to a 2008 ten-year supply contract based on a formula price. The balance of the Company's ethanol requirements is sourced from other local ethanol producers and imports. Ethanol is blended with gasoline to comply with the current requirement under the Philippine Biofuels Act of 2006 that all premium gasoline fuel sold by every oil company in the Philippines should contain 10% bioethanol starting August 6, 2011.

The Company also imports LPG, aviation gas, asphalt and some gasoline blending components. These imports are necessary as the Company does not produce asphalt and aviation gas, while its production of LPG is insufficient to meet domestic demand in the Philippines. Occasional imports of diesel, finished gasoline and jet fuel are also necessary during maintenance of the Limay Refinery. Pricing is usually based on Mean of Platts Singapore (“MOPS”).

Malaysian Operations

The main raw material used in the Port Dickson Refinery’s production process is crude oil. The Company acquires crude oil for the Port Dickson Refinery from local and regional sources, through a combination of term purchase contracts and spot purchases. Pricing is determined through a formula that is linked to international industry benchmarks.

The Port Dickson Refinery is capable of processing other crude oils. The Company’s crude oil optimization strategy includes the utilization of other crude oils for use in the Port Dickson Refinery’s production.

The Company buys POME from Malaysian government-approved local suppliers for its biodiesel mix. POME is the bio-component of the biodiesel mix sold to domestic customers in Malaysia as a replacement for diesel. The Company produces a biodiesel mix comprising 5% POME and 95% diesel to comply with the current requirement under the Malaysian Biofuel Industry Act of 2007. The biodiesel program under the Malaysian Biofuel Industry Act of 2007 is being implemented in stages throughout Malaysia. Full implementation throughout Peninsular Malaysia is expected by the fourth quarter of 2014.

The Company also imports LPG, diesel, gasoline and some gasoline blending components. These imports are necessary as the Company does not produce enough refined products to meet domestic demand in Malaysia. Pricing is usually based on MOPS.

Utilities

The principal utilities required for the Company’s production process are water, electricity and steam.

Water

Deep wells provide the Limay Refinery’s water requirements. Additional deep wells and a seawater system have been installed and are expected to meet the increased requirement arising from the full implementation of RMP-2.

The Port Dickson Refinery’s clean water requirements for the process units are sourced from the local municipal cooling water source. Water for fire-fighting purposes is sourced from a natural lagoon located within the Port Dickson Refinery complex.

Electricity and Steam

In 2013, the Limay Refinery’s electricity and steam requirements were generated within the Limay Refinery from its existing turbo and steam generators as well as from the nearby cogeneration power plant. The Company purchased the balance of approximately 11% of the Limay Refinery’s electricity requirements from the national grid.

The new cogeneration power plant in Limay, Bataan, which replaces some of the Limay Refinery’s existing turbo and steam generators, is expected to eventually fulfill completely the Limay Refinery’s electricity and steam requirements, including the increased demand arising from the full implementation of RMP-2. In the first six months of 2014, 45% of the Limay Refinery’s electricity requirements were purchased from the new cogeneration power plant.

The Port Dickson Refinery's electricity requirements are purchased from the Malaysian national electricity provider, while the Port Dickson Refinery's fired and waste heat boilers supply the steam requirements of the process units.

SALES AND MARKETING

The Philippines

In the Philippines, the Company is the market leader in the oil industry, with an overall market share of 36.5% of the Philippine oil market in 2013 in terms of sales volume per Company estimates based on Company information and data from the DOE.

In the retail market, the Company had close to 2,200 retail service stations throughout the Philippines as of June 30, 2014, representing approximately 31% of the country's total gasoline station count of about 7,000. Most of these stations are located in Luzon, where demand is heaviest.

The Company can employ any of two types of service station operating structures in the Philippines, namely: company-owned-dealer-operated service stations ("CODO") and dealer-owned-dealer-operated service stations ("DODO"). For CODOs, the Company buys or leases the land and owns the service station structures and equipment, but third party dealers operate the CODOs. For DODOs, third party dealers operate the service station, buy or lease the land, build service station structures according to Company specifications, and lease the service station equipment from the Company. As of June 30, 2014, of the Company's 2,200 retail service stations in the Philippines, approximately 27% were CODOs, and approximately 73% were DODOs.

The Company actively pursues initiatives to improve customer service, promote customer loyalty and support its retail business. For example, the *Petron e-Fuel Card* was launched in July 2008, initially as a promotional item. In 2004, the Company launched the *Petron Fleet Card*, the first microchip-powered card in the Philippines, which is a credit card that offers rebates and discounts on fuel, lubricants and services and provides 24-hour free towing and roadside assistance to cardholders. As of June 30, 2014, more than 125,000 Petron Fleet Cards had been issued. To maximize patronage of its service stations and related businesses, the Company launched a loyalty program in October 2011 through its *Petron Value Card*. As of June 30, 2014, close to 1.9 million *Petron Value Cards* had been issued. The Company also continued to install the point of sale ("POS") system across its retail network throughout the Philippines. POS systems are used for gaining efficiencies through automating retail transactions and the proper monitoring of actual sales in service stations. As of June 30, 2014, about 700 of the Company's retail service stations in the Philippines had installed POS terminals.

To improve traffic in the Company's service stations and increase potential revenues of the Company's non-fuel business, the Company leases space to quick-serve restaurants and other consumer service shops in strategic service stations in Luzon.

The Company also services approximately 38.7% of the Philippine industrial sector, which includes major manufacturing, aviation, and marine accounts. Overall, the Company has more than 1,100 direct industrial account customers.

The Company is the biggest market participant in the Philippine LPG market. The Company had set up more than 1,000 branch stores through its *Gasul* and *Fiesta Gas* LPG dealers as of June 30, 2014. It has also gained headway in the field of alternative fuels through its auto-LPG program, *Petron Xtend*, and auto-LPG facilities are already installed in 18 service stations throughout the Philippines. The Company also commissioned 10 mini-refilling plants in the Philippines as of June 30, 2014 to broaden the reach of the Company's LPG products and make them accessible to more Filipinos.

To augment lubricants and greases sales, Petron Lubes had a network of more than 25 *Car Care Centers* and a number of other outlets throughout the Philippines as of June 30, 2014. The Company also leverages its expanded LPG outlet network, utilizing its branch stores as outlets for the Company's lubricants and specialty products. The Company is also expanding into blending and export of fuel

additives, leveraging its technology partnership with Innospec. The Company also provides technical services to Innospec's customers, and is able to tap the customer base of Innospec in Asia to broaden the market for its own lubricant brands.

The Company also exports various petroleum products and petrochemical feedstocks, including fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region. These products are sold through accredited traders and to end-users under term or spot contracts.

Malaysia

The Company's fuels marketing business in Malaysia is divided into retail business and commercial sales.

The retail business markets fuel and other retail products through a dealer network comprising approximately 560 retail service stations located throughout Peninsular and East Malaysia, of which approximately 550 are being rebranded under the *Petron* brand, a process that is expected to be completed in the first quarter of 2015. In Malaysia, the Company uses the CODO and DODO operating structures for its retail service stations. As of June 30, 2014, approximately 73% were CODOs, and approximately 27% were DODOs. Approximately 260 of the service station sites have convenience stores, which generate non-fuel revenues and improve traffic in the service stations.

Since acquiring its Malaysian operations in March 2012, the Company has been actively pursuing initiatives to improve customer service and promote customer loyalty at its Malaysian retail service stations. The Company rebranded its loyalty card programs to *Petron Miles Privilege Cards*, as part of its rebranding program in Malaysia. As of June 30, 2014, the Company's loyalty card program in Malaysia comprised approximately 1.7 million cardholders.

The Company's commercial sales are divided into four segments: industrial and aviation fuels, wholesale fuels, LPG and lubricants and specialties.

The industrial segment sells diesel and gasoline to unbranded mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors. The Company's sales to unbranded mini-stations represented approximately 68% of such sales in Malaysia by volume in 2013, according to Metrix Research. Sales to the mini-stations are priced according to the APM. Many power plants in Malaysia run on natural gas and use diesel as alternative fuel when there are gas curtailments. The Company sells diesel to such power plants on an ad-hoc basis at spot prices. The pricing of these sales is determined through a formula that is linked to international industry benchmarks. Sales of diesel to the manufacturing, plantation and construction sectors are not regulated by the Malaysian government, and the pricing of these sales is subject to market supply and demand. Sales of diesel to selected transportation sectors are priced according to the APM. Since sales to these transportation sectors are subject to a quota system in Malaysia, the Company's sales to these transportation sectors are subject to volume limits. The Company has to manage its sales of subsidized products to ensure that such sales do not exceed the amount permitted under the approved quotas. See "Risk Factors – Risks Relating to the Company's Business and Operations – The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products, including price controls, subsidies and quotas." In Malaysia's aviation sector, the Company is also one of the three major jet fuel suppliers at KLIA and KLIA 2 pursuant to a throughput agreement with the Kuala Lumpur Aviation Fuelling System, the operator of the KLIA's storage and hydrant facility.

The Malaysian wholesale segment consists of sales, primarily of diesel to Company appointed distributors which subsequently sell the Company's products to industrial customers.

The Company markets LPG in 12-kg and 14-kg cylinders for domestic use through redistribution centers, stockists and dealers. LPG redistribution centers are owned by the Company and distribute bottled LPG to dealers. Stockists are dealer-owned and also distribute cylinders to other dealers. Dealers generally collect bottled LPG directly from redistribution centers and stockists for onward sale to domestic consumers. Sales of LPG in 14-kg cylinders or less are subsidized under the APM. See "Regulatory and

Environmental Matters – Malaysia – Sale and Pricing of Refined Petroleum Products – Price Control and Anti Profiteering Act, 2011” for a more detailed discussion of the APM and the Malaysian quota system. The Company also sells bulk LPG to industrial users through appointed dealers.

The Company established a lubricants and specialties segment in April 2012 to introduce Petron lubricants and greases into the Malaysian market. These products are marketed through a network of appointed distributors in both West and East Malaysia into various industry segments, i.e. car and motorcycle workshops, transport and fleet operators, manufacturing, and industrial accounts. The Company’s wide range of automotive lubricants is also sold through the Company’s extensive network of service stations in Malaysia. The Company also participates in sales to car and motorcycle workshops, as well as to the industrial market through its appointed distributors.

The Company also exports LSWR and naphtha from the Port Dickson Refinery through accredited traders and to end-users under term or spot contracts.

DISTRIBUTION

The Philippines

The Company’s main storage facility in the Philippines is located in Pandacan, Manila. Pandacan is also the site of the main terminals of Pilipinas Shell Petroleum Corporation (“Shell”) and Chevron Philippines, Inc. (“Chevron”) (formerly Caltex Philippines). In 2004, the Pandacan operations of the Company, Shell and Chevron were integrated to address the safety and environmental concerns of the surrounding community. The integrated facility is now operated by the Pandacan Depot Services Inc., a joint venture company equally owned by the Company, Shell and Chevron. The Pandacan terminal distributes products to a large tributary area that extends south, north and east of Manila.

To serve its domestic markets, the Company maintains more than 30 depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network in the country. The network comprises 12 depots and terminals in Luzon, eight in Visayas and seven in Mindanao, as well as two airport installations in Luzon, one in Visayas and two in Mindanao. The Company also has presence in airport installations in Palawan and Pampanga in Luzon, Aklan, Malay Aklan and Iloilo City in Visayas, as well as in General Santos City and Zamboanga City in Mindanao. Depots and terminals have marine receiving facilities, multiple product storage tanks for liquid fuels and LPG, drummed products storage, and warehouses for packaged products, such as lubricants and greases. From the Limay Refinery, refined products are distributed to the various depots and terminals and direct large consumer accounts using a fleet of contracted barges and tankers, and to service stations and industrial accounts throughout the Philippines through a fleet of contracted tank trucks. The barges and tankers are chartered on term or spot contracts from third party ship owners. From the storage depots, bulk products are hauled by tank trucks owned by third parties to service stations and industrial accounts. Under the terms of the applicable contracts, the third party owners of the contracted barges and tankers and tank trucks that are used to haul the Company’s products are liable for losses and environmental issues that arise while the products are being transported.

In its Philippine LPG business, the Company has a nationwide network of retail dealerships and outlets. Some service stations also carry the Company’s LPG products and accessories. The Company also has stand-alone LPG operations in its depots in Pasig City, Legaspi City, and San Fernando in Pampanga.

Lubricants and greases in various packages are transported by container vans to bulk plants and terminals outside Metro Manila. Package trucks owned by third parties are utilized to deliver these lubricants and greases to various customers in Metro Manila and Luzon. Sales counters throughout the Philippines are also appointed to sell these products.

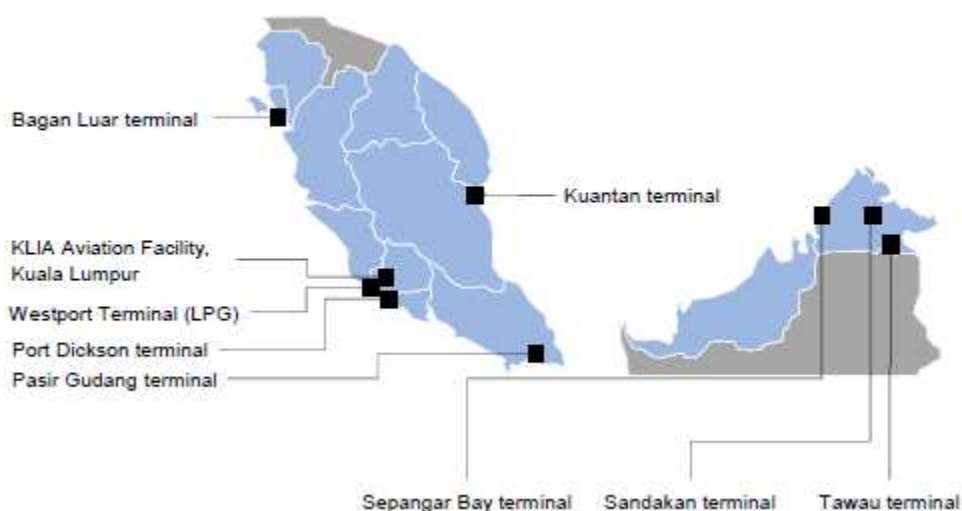
The Company has airport installations at the Ninoy Aquino International Airport and other airports in the Philippines located in major urban centers. These installations provide storage of aviation fuels as well as refuelling services for various aircraft.

Malaysia

The Company's products are distributed from the Port Dickson Refinery primarily through tank truck deliveries from the adjacent Port Dickson terminal. The remainder is delivered by coastal tankers to other distribution terminals in Peninsular Malaysia and Sabah. The Company's Malaysian distribution operation network includes eight product terminals located in strategic locations across Peninsular and East Malaysia. The Port Dickson terminal is located at the Port Dickson Refinery, and the other terminals are located near major fuel product market areas.

The map below shows the geographic coverage of the Company's depots and terminals in Malaysia as of June 30, 2014.

Geographic coverage of the Company's depots and terminals in Malaysia



Jet fuel is transported from the Port Dickson Refinery to KLIA through a multi-product pipeline (the "MPP"), which is partly owned by the Company through its 20% ownership interest in an unincorporated joint venture with Petronas Dagangan Berhad ("PDB") and Shell Malaysia Trading Sdn Bhd ("Shell Malaysia"), each of which has a 40% ownership interest. The MPP is a fungible products pipeline for transporting gasoline, diesel and jet fuel and is operated by PS Pipeline Sdn Bhd, a 50-50 joint venture between PDB and Shell Malaysia.

The joint venture through which the Company owns its interest in the MPP also owns a fuel terminal, the Klang Valley Distribution Terminal where inventory is commingled. The Company has historically only used the MPP to transport jet fuel to KLIA and not for transporting gasoline or diesel to the Klang Valley Distribution Terminal. However, due to the economic inefficiency of hauling gasoline and diesel by tank truck from the Port Dickson Refinery to the Company's service stations in the Klang Valley, the Company intends to commence piping gasoline and diesel through the MPP to the Klang Valley Distribution Terminal in the first quarter of 2015, which will enable tank trucks to collect such products at the Klang Valley Distribution Terminal for delivery to Klang Valley service stations. The Company expects that this will reduce its distribution costs.

LPG is bottled at the Port Dickson terminal. Most redistribution centers and stockists collect bottled LPG directly from the Port Dickson terminal. The Company also has an LPG storage and bottling facility at West Port, which is a 50-50 joint venture between the Company and Boustead Petroleum Marketing Sdn Bhd.

CAPITAL EXPENDITURES PLAN

The Company has upgraded the Limay Refinery and expanded its retail service station network in the Philippines over the past several years and intends to continue to increase investments in these areas in order to optimize operational efficiency, reduce costs and increase market share. The Company is also investing in its Malaysian operations. Specifically, the Company intends to (i) complete the implementation of RMP-2 for the Limay Refinery, (ii) continue the expansion of its retail service station network in the Philippines, (iii) enhance the facilities at the Port Dickson Refinery to increase its utilization of heavier, more sour crude oil and to enable it to produce Euro 4M-standard fuels, (iv) complete the rebranding and refurbishing of its retail service station network in Malaysia, and (v) expand and upgrade its logistics capacity.

The Company's estimated consolidated capital expenditures for 2014 are ₱21.3 billion (US\$0.5 billion), allocated as follows: approximately 48% for the implementation of RMP-2, approximately 12% for retail service station network expansion in the Philippines, 6% for rebranding and refurbishing its retail service station network in Malaysia, and approximately 3% for expansion/upgrade of logistics capacity. The Company expects to continue to make substantial capital expenditures after 2014 to complete the major projects described in (ii), (iii), (iv), and (v) above and for other purposes. These capital expenditures are expected to be funded by a combination of net cash flows provided by operating activities and external financing sources.

The Company's anticipated capital expenditures are based on management's estimates and have not been appraised by an independent organization. In addition, the Company's capital expenditures may change as projects are reviewed or contracts entered into and are subject to various factors, including market conditions, the general state of the Philippine economy, the Company's operating performance and cash flow and the Company's ability to obtain financing on terms satisfactory to management.

Capital Expenditure Projects

Limay Refinery

The Company completed Phase 1 of the Refinery Master Plan ("RMP-1") in May 2009, under which it completed the construction of the PetroFCC unit, the propylene recovery unit and the benzene-toluene extraction unit. RMP-1 enhanced the Limay Refinery's capability to convert low-margin fuel oil into White Products such as LPG, gasoline and diesel. RMP-1 also expanded the Company's venture into production of petrochemical feedstocks such as propylene, benzene, toluene and additional mixed xylene.

A significant portion of the Company's capital expenditures has been allocated to complete the implementation of RMP-2, which involves further upgrades to the Limay Refinery and the addition of new facilities to enhance further the Limay Refinery's operational efficiencies and its capability to convert low-margin fuel oil into a broader range of White Products and petrochemical products. The Company expects that the increased production of White Products and petrochemical products will increase sales revenue and improve margins. The facilities are currently in the pre-commissioning and testing stages. Upon the planned completion of RMP-2 in 2014, the Limay Refinery will be able to produce petcoke, which may be used as fuel for the new cogeneration power plant for the Limay Refinery, lowering the Company's power generation costs. The Company also expects RMP-2 to place the Limay Refinery's utilization, processing and energy efficiency on par with more advanced refineries in the region and improve its competitiveness. In addition, once fully implemented, RMP-2 will make the Company the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard.

Philippine Service Station Network Expansion

To support growth in sales in the Philippines, the Company intends to continue to increase the number of its service stations in urban and rural areas. The significant growth of the Company's service station

network is driven by the rapid establishment of the Company's pioneering *Petron Bulilit* Stations, which are small service stations that provide the Company with the flexibility to establish a presence even in remote rural areas and make the Company's products and services accessible to more Filipinos. The service station expansion will also support the expected increase in sales volume once RMP-2 comes on-stream.

Port Dickson Refinery

The Company plans to enhance the facilities at the Port Dickson Refinery to improve operating efficiency and recovery of high-valued products. The enhancement will include the modification of the reforming unit and the distillation tower, and improvement of the offsite facilities. Total project cost is estimated to be approximately ₱1.3 billion, which the Company intends to finance with net cash flows provided by operating activities as well as equity and debt to be determined at the time of financing. The Company expects to complete the facilities for the offsite improvement by the first quarter 2015 while the modification activities for the reformer and distillation units are expected to be completed by the fourth quarter of 2015.

Malaysian Service Station Network Rebranding

In Malaysia, the Company is in the process of rebranding and refurbishing its network of approximately 550 retail service stations, which were part of the ExxonMobil acquisition, under the *Petron* brand. As of June 30, 2014, about 380 service stations have been successfully refurbished and rebranded. The Company has budgeted approximately ₱4 billion for this project and expects the rebranding and refurbishing to be completed in the first quarter of 2015.

Logistics Expansion and Upgrade

The Company is upgrading and expanding its storage capacity to support the expected increase in volume from RMP-2. Identified locations include Navotas, Limay and Rosario. The logistics expansion and upgrade also aim to improve product supply reliability to customers and end-users.

In 2013, the construction of new storage facilities in the Joint Oil Company Aviation Storage ("JOCASP") and Navotas Depot were completed to shore up the Company's ability to serve increasing Jet A-1 requirements.

COMPETITION

The Philippines

In the Philippines, the Company operates in a deregulated business environment, selling its products to individual, commercial and industrial customers. The enactment of the Downstream Oil Industry Deregulation Law in 1998 effectively removed the rate-setting function of the Philippine government through what was then known as the Energy Regulatory Board, leaving price-setting to market forces. It also opened the oil industry to free competition. See "Regulatory and Environmental Matters" for a more detailed discussion of the oil deregulation law.

The Philippine oil industry is dominated by three major Philippine oil companies: the Company, Shell and Chevron, which, based on industry data from the DOE for year 2013, together constitute 69.2% of the Philippine market based on sales volume. Deregulation has seen the entry of more than 100 other industry market participants, rendering the petroleum business more competitive. The Company and Shell operate the only refineries in the country. The rest of the industry market participants are importers of finished petroleum products or purchase finished petroleum products from other market participants in the local market. In the Philippines, the Company competes with other industry market participants on the basis of price, product quality, customer service, operational efficiency and distribution network, with price being the most important competitive factor. Providing total customer solutions has increased in importance as consumers became more conscious of value.

The Company participates in the reseller (service station), LPG, industrial and lube sectors through its network of service stations, terminals and bulk plants, dealers and distributors throughout the Philippines. In the reseller sector, competition is most dynamic among the major firms, as seen through the construction of service stations by Shell, Chevron, Total Philippines, Phoenix Petroleum, Seaoil and other new participants in major thoroughfares. The small market participants also continue to grow, with station count increasing from 695 in 2001 to around 3,000 stations as of June 30, 2014. Participants in the reseller and LPG sectors continue to resort to aggressive pricing and discounting in order to expand their market share. The number of LPG importers in the Philippines increased from three, prior to deregulation, to about nine, with new entrants having more flexible and bigger import receiving capacities. Although Petron is the biggest participant in the Philippine LPG sector, one of the new participants in this sector, Liguigaz, has amassed a substantial market share of 31.0% as of December 31, 2013. In the industrial sector, the major market participants continue to invest heavily in order to increase their market share and tap new markets. In the lubricants sector, intense competition among over 50 brands, including global brands such as Castrol, Mobil, Shell and Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of previously unutilized markets, such as auto-dealerships in malls.

The Company is the leader in the Philippine oil industry, with an overall market share of 36.5% of the Philippine oil market in 2013, ahead of the other two major Philippine oil companies, which have market shares of 24.3% and 8.4%, in terms of sales volume per Company estimates based on Company information and data from the DOE for the year 2013. Approximately 100 smaller oil market participants, which started operations after the deregulation of the oil industry in 1998, account for the remaining market share. The Company is the leader in terms of sales volume in the retail, industrial and LPG market segments and a strong second, as compared with the market shares of the two other major Philippine oil companies, in the lubricants and greases market segment based on industry data from the DOE for the year 2013. The Company believes that its competitive advantages include organization, technology, assets, resources and infrastructure. The Company continues to implement initiatives aimed at improving operational efficiencies, managing costs and risks, and maximizing utilization of its assets and opportunities.

Malaysia

In the retail service station business, the Company's Malaysian operations compete with four other main participants in the market, namely: subsidiaries of Petronas, Shell, Caltex and BHP. Of these competitors, Petronas and Shell also have refinery operations in Malaysia. The Malaysian government regulates the pricing of gasoline and diesel at retail service stations through the APM. See "Regulatory and Environmental Matters – Malaysia – Sale and Pricing of Refined Petroleum Products – Price Control and Anti Profiteering Act, 2011".

The Company continues to face intense competition in the Malaysian industrial, aviation and wholesale market segments from other local and multi-national oil companies. The Company uses its local production from the Port Dickson Refinery and its strategic terminal locations across Malaysia to remain competitive in these segments.

In the LPG segment, the APM applies only for sales of LPG in domestic cylinders. Competition in this market is driven by supply reliability, dealer network efficiency and customer service. The Company, being well established, remains competitive in this segment.

The lubricants and specialties market is dominated by the traditional global brands as well as established local players. The Company has the advantage of an extensive network of service stations to market its products and to provide brand presence. Price is a major competitive factor in this market. The Company believes that it is well positioned to compete in this market, due to its efficient blending plant and supply chain.

EMPLOYEES

As of June 30, 2014, the Company had 2,663 employees, comprising 1 chairman, 1 president, 23 vice presidents and assistant vice presidents, 1,385 managerial, professional and technical employees, 777 rank and file employees, and 476 employees of the Company's Malaysian operations. Approximately 81% of the Company's employees are based in the Philippines, with the remaining 19% in Malaysia, including employees who have been seconded to Malaysia from the Company's Philippine operations. The Company believes that it has a well-trained and experienced pool of employees. As of June 30, 2014, 22% of the Company's employees had worked with the Company for over 20 years. The average tenure of the Company's employees is approximately 9 years in the Philippines and approximately 12 years in Malaysia.

The Company has collective bargaining agreements ("CBAs") with three labour unions in the Philippines: Petron Employees Association with 144 members, Petron Employees Labour Union with 41 members and the Bataan Refiners Union of the Philippines with 563 members. As of June 30, 2014, approximately 34% of the Company's employees in the Philippines were covered by CBAs. The Company has CBAs with two labour unions in Malaysia: the National Union of Petroleum and Chemical Industry Workers with 143 members and the Sabah Petroleum Industry Workers Union with 8 members. As of June 30, 2014, approximately 32% of the Company's employees in Malaysia were covered by CBAs.

The Company has not experienced any strikes or work stoppages for more than ten years. None of the Company's CBAs are due to expire before December 2014. The Company considers its relationship with its employees to be good.

In the Philippines, in addition to statutory benefits, the Company provides hospitalization insurance; life insurance; vacation, sick and emergency leaves; and computer, company and emergency loans to employees. It has also established a savings plan wherein an eligible employee may apply for membership and have the option to contribute 5-15% of his monthly basic salary. The Company, in turn, contributes a maximum of 5% to a member-employee's account in the savings plan. The Company has adopted the *"Rewarding Excellence through Alternative Pay Program"*, a performance incentive program that rewards eligible employees who contribute to the achievement of the Company's annual business goals. The benefits in Malaysia are substantially similar to those in the Philippines, with the exception of the savings plan and variable pay scheme. Malaysian employment regulations require employers and employees to contribute to an employees' provident fund (the "EPF") to provide for the retirement and other needs of employees in Malaysia. Under present regulations, employees contribute 11% of their monthly salary to the EPF via payroll deductions. Employers are required to contribute a minimum amount equivalent to 12% to 13% of an employee's monthly salary to the EPF. Under employment contracts and collective agreements entered into by the Company with its employees in Malaysia, the Company contributes up to 12% and 16% of the salaries of its managerial, professional and technical ("MPT") employees and its non-MPT employees, respectively, to the EPF. As the Malaysian government does not require employers to make contributions to the EPF with respect to foreign workers, the Company does not make contributions to the EPF for its foreign employees.

RESEARCH AND DEVELOPMENT

To enhance productivity, efficiency, reduce costs and strengthen the competitiveness of the Company, the Company engages in research and development to identify improvements that can be made to its production processes. The development, reformulation and testing of new products are continuing business activities of the Company.

As part of its product innovation strategy, the Company produces Blaze 100 Euro 4, the first premium plus gasoline in the Philippines that meets the Euro IV standard, a globally accepted European emission standard for vehicles. Petron Blaze 100 Euro 4 meets the fuel quality requirements of Euro 4 technology vehicles. It also exceeds the Euro-4PH fuel specifications for sulfur and benzene content of the Philippine National Standards. Petron Blaze 100 Euro 4 was launched two-and-a-half years ahead of the Philippine government mandate for this global fuel standard which is set to take effect by 2016.

Petron utilizes appropriate technology in developing new fuel and lubricant products for performance, cost-effectiveness, and environment-friendliness. The Company also enhances the quality level of its existing products.

The Company also voluntarily applied its products for original equipment manufacturers (“OEMs”) certification and accreditation. This year, the American Petroleum Institute Engine Oil Licensing and Certification System has renewed the Company’s license to use the API Service Certification mark for its *Ultron Race* and *Rev-X All Terrain* engine oil products. Similarly, approval certifications were granted by original engine manufacturers, including Mercedes Benz and BMW, allowing the use of these products in their engines.

The Company is committed to continuing to develop high quality and innovative products to meet the requirements of the market. The Company believes that its continued success will be affected in part by its ability to be innovative and attentive to consumer preferences and local market conditions.

As of June 30, 2014, 27 of the Company’s employees were employed in the Research and Development Group. The Research and Development Group has long-standing partnerships with leading global technology providers in fuels, lubricants and grease products. It is engaged in the customization of products at globally competitive quality and performance. It also manages a petroleum and allied products testing facility that meets global standards. In addition, it provides technical training to keep internal and external customers updated of the latest technology trends in the industry.

INTELLECTUAL PROPERTY

The Company has existing and pending trademark registrations for its products for terms ranging from 10 to 20 years. It also has copyrights for its seven-kg LPG container, “*Gasulito*” with stylized letter “P” and two flames, for “*2T Powerburn*,” and for Petron New Logo (22 styles). Copyrights subsist during the lifetime of the creator and for another 50 years after the creator’s death. The Company has not had any significant disputes with respect to any of its trademarks or copyrights.

As of June 30, 2014, the Company has filed trademark registrations in Malaysia for 178 brands relating to its Malaysian operations. It has obtained copyright protection for the stylized letter “P” and has registered other trademarks in Malaysia, including “*Gasul*”, “*Fiesta Gas*” and “*Energen*”. The Company has filed an application for the right to use the “*Petron*” name with the Malaysian Intellectual Property Office, and a third party has filed a notice opposing the Company’s application. The Company and the third party are engaged in discussions to find a mutually acceptable solution. However, even if it were ultimately prevented from using the name “*Petron*” in Malaysia, the Company does not expect that this would have a material impact on its Malaysian operations.

INSURANCE

The Company has insurance policies that cover its properties and liabilities. The Company employs risk management for purposes of analyzing the risks faced by its businesses in determining the appropriate insurance policies. The Company’s insurance coverage includes property, marine cargo and third party liability. The Company’s business interruption insurance has a US\$94.5 million limit that covers losses at the Limay Refinery. The Company considers its insurance coverage to be in accordance with industry standards.

All insurance policies relating to the Company’s Philippine operations are written by its wholly-owned insurance subsidiary, Petrogen. The majority of the risks are reinsured with Standard & Poor’s A-rated foreign insurers through Ovincor, Petron’s Bermuda-based captive insurance subsidiary. The Company’s Malaysian operations are insured with local Malaysian insurance companies, as required by Malaysian law.

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

The Philippines

Petron is guided by its Corporate Health, Safety and Environment Policy (the “Corporate HSE Policy”). The principles of the Corporate HSE Policy apply to all assets, facilities, and operating and support groups of the Company.

The Company has a Corporate Technical and Engineering Services Group (“CTESG”) responsible for formulating, implementing and enforcing the Company’s employee health, safety and environment policies, as well as ensuring compliance with applicable laws and regulations.

The Safety division of the CTESG (“CTESG-Safety”) ensures, among others, compliance by the Company’s contractors and service station dealers to government-mandated safety standards and regulations, and conducts training programs designed to raise awareness on process safety, oil spill response, fire-fighting and basic safety procedures for employees, contractors and service station dealers. CTESG-Safety has put together a Corporate Safety Management System, the main reference of all safety management systems in the Company based mainly on OHSAS 18001. The Limay Refinery and some of the Company’s depots, terminals and service stations have implemented third party certified management systems. The Limay Refinery is certified by TUV-SUD-PSB, an internationally recognized certification and inspection body, for its Integrated Management System (“IMS”) on Quality (ISO 9001), Environment (ISO 14001), and Safety (OHSAS 18001). As of June 30, 2014, 24 of the Company’s depots and terminals are IMS-certified while another 4 are recommended for certification. In addition, all of the Company’s depots and terminals have Philippine Coast Guard-approved Oil Spill Response Contingency Plans.

CTESG-Safety also conducts multi-functional audits of the Limay Refinery as well as of the Company’s facilities, depots, service stations, industrial accounts in the Philippines and the Company’s facilities in Malaysia to ensure compliance with Petron safety standards and government laws and regulations on safety.

The Environment division of the CTESG (“CTESG-Environment”) provides among others, technical assistance and consultancy services on areas of environmental management and conducts environmental awareness training for the Company’s employees, contractors and service station dealers. It is also responsible for formulating and implementing an Environmental Management System (“EMS”) based on ISO 14001-2001 standards in the Limay Refinery and the Company’s depots, terminals and service stations. As of June 30, 2014, 22 Petron service stations have been certified compliant to the EMS, a first in the Philippine oil industry.

As part of its advocacy functions, the CTESG is also actively involved in public stakeholder consultations during the drafting of Philippine safety and environmental protection standards, laws and regulations. The Company also actively participates in the implementation of government programs, such as the *Kapatiran WISE-TAV* program (also known as the *Big Brother/Small Brother Project*) of the Philippine Department of Labor and Employment, as well as in local and regional oil spill response consortiums such as Oil Spill Response Ltd.

See “Regulatory and Environmental Matters” for a more detailed discussion of applicable environmental regulations.

Malaysia

The Company is subject to local safety, health and environmental regulation in Malaysia, including (i) the Factories and Machinery Act 1967 (Act 139) and the Occupational Safety and Health Act 1994 (Act 514), as amended, and regulations, rules, and orders made pursuant thereto, which are administered by the Malaysian Department of Occupational Safety and Health, (ii) the Environmental Quality Act 1974 (Act 127), as amended, and regulations, rules and orders made pursuant thereto, which are administered by the Malaysian Department of Environment and (iii) the Fire Services Act 1988 (Act 341), as amended,

and regulations made pursuant thereto, which are administered by the Malaysian Fire Rescue and Services Department.

The Company has a corporate safety, security, health and environment department that is responsible for formulating, implementing and enforcing the Company's safety, health and environmental policies in Malaysia, coordinating and conducting relevant programs to raise the level of awareness of Safety, Security, Health and Environment ("SSHE") and ensuring compliance with applicable laws and regulations. For more than ten years, the Company's operating facilities, plants and other businesses in Malaysia have attained good SSHE performance without any lost-time injury for employees or contractors. The Port Dickson Refinery and distribution terminals at Peninsular and East Malaysia have been awarded annual recognition of their safety and health performance by the Malaysian Society for Occupational Safety & Health ("MSOSH") for more than five consecutive years. As prescribed by local regulatory requirements, the Port Dickson Refinery and the Company's Malaysian terminals have established emergency response and oil spill contingency plans.

The Company strives to achieve and sustain good SSHE performance in Malaysia through the implementation of various key programs including (i) the SSHE Management System ("SMS"), which provides a structured approach to the management of work-related personal and operational risks, including the selection, recruitment and training of employees and contractors, equipment design, maintenance and servicing, as well as ensuring regulatory compliance, and (ii) the Loss Prevention System ("LPS"), which was adopted to prevent or reduce losses and incidents using behaviour-based tools and other safety management techniques.

DESCRIPTION OF PROPERTY

The Philippines

In the Philippines, Petron owns a petroleum refinery complex located in Limay, Bataan. The Limay Refinery has a crude oil distillation capacity of 180,000 bpd. Its facilities include three crude oil distillation units, a vacuum pipestill unit, the PetroFCC unit, a propylene recovery unit, a continuous catalyst regeneration reformer unit, a semi-regenerative reformer unit, two naphtha hydrotreaters, two LPG treaters, an isomerization unit, a mixed xylene recovery unit, a benzene-toluene extraction unit, sour water facilities, a kerosene mercox treater, two gas oil hydrotreater units, a sulfur recovery unit, a nitrogen plant, waste water treatment facilities, other support facilities, bulk asphalt receiving facilities, several crude oil storage tanks, as well as several refined petroleum products storage tanks. It has its own piers and two offshore berthing facilities, one of which can accommodate very large crude oil carriers.

The Company also operates a lube oil blending plant at its Pandacan Terminal, a fuel additives blending plant in Subic Bay Freeport, and a polypropylene plant in Mariveles, Bataan.

Petron operates a network of terminals and depots as bulk storage and distribution points throughout the Philippines, as well as LPG plants in its Pasig terminal, San Fernando depot and Legaspi depot. Its airport installations serve the fuel requirements of the airline industry and other aviation accounts.

PETRON TERMINALS, DEPOTS, AIRPORT INSTALLATIONS, SALES OFFICES AND MANUFACTURING PLANTS IN THE PHILIPPINES

	Luzon	Visayas	Mindanao
Terminals	Limay, Bataan	Mandaue, Cebu	
	Mabini, Batangas		
	Pandacan, Manila		
	Pasig, Metro Manila		
Depots	Aparri, Cagayan	Anibong, Tacloban City	Bawing, General Santos City
	Legaspi, Albay	Bacolod, Negros Occidental	Davao City
	Navotas, Metro Manila	Culasi, Roxas City	Iligan City, Lanao del Norte
	Pasacao, Camarines Sur (RA)	Iloilo City	Jimenez, Misamis Occidental
	Poro Point, La Union	Isabel, Leyte	Nasipit, Agusan del Norte
	Puerto Princesa, Palawan	Ormoc, Leyte	Tagoloan, Misamis Oriental
	Rosario, Cavite	Tagbilaran City, Bohol (RA)	Zamboanga City (RA)
	San Fernando, Pampanga		
Airport Installations	Laoag, Ilocos Norte	Mactan, Lapu-Lapu City	Davao City
	NAIA, Metro Manila		Laguindingan, Misamis Oriental

Sales Offices	Calapan, Oriental Mindoro	Amlan, Negros Oriental
	Mamburao, Occidental Mindoro	
	Masbate, Bicol	
	San Jose, Occidental Mindoro	
Manufacturing Plants	Pandacan, Manila	
	Subic, Zambales	

Note: RA indicates that a rationalization agreement is in place in relation to the relevant depot, which is a contract between the owner-operator of the depot and another oil company regarding product supply and the use of the facilities to rationalize operations and reduce costs.

In the retail market, the Company has close to 2,200 retail service stations throughout the Philippines as of June 30, 2014, representing approximately 31% of the country's total gasoline station count of about 7,000. Most of these stations are located in Luzon, where demand is heaviest.

Malaysia

In Malaysia, the Company owns a petroleum refinery complex located in Port Dickson, Negeri Sembilan. The Port Dickson Refinery has a crude oil distillation capacity of 88,000 bpd. Its facilities include a crude oil distillation unit, a naphtha hydrotreating unit with a processing capacity of 26,000 bpd, two semi-regeneration reformer units with a combined processing capacity of 19,000 bpd and a kerosene hydrotreating unit with a processing capacity of 12,000 bpd. The Port Dickson Refinery also has waste water treatment facilities, a boiler, a cooling water plant, flare and safety relieving facilities, five crude oil storage tanks with a total capacity of approximately one million barrels, 20 refined petroleum products storage tanks and five spheres for LPG storage with a total capacity of approximately 1.1 million barrels.

PETRON TERMINALS IN MALAYSIA

PETRON TERMINALS IN MALAYSIA		
	Peninsular Malaysia	Sabah
Terminals	Bagan Luar	Sepangar Bay
	Tasek	Sandakan
	Port Dickson	Tawau
	Kuantan	
	Pasir Gudang	

The retail business in Malaysia markets fuel and other retail products through a dealer network comprising approximately 560 retail service stations located throughout Peninsular and East Malaysia, of which approximately 550 are being rebranded under the *Petron* brand, a process that is expected to be completed in the first quarter of 2015.

All facilities owned by the Company are free from liens and encumbrances.

The Company entered into commercial leases with the PNOG for parcels of land occupied by its Limay Refinery, depots, terminals and certain of its service stations. The lease agreements include upward escalation adjustment of the annual rental rates. In 2009, the Company renewed its lease with PNOG (through the Company's subsidiary, NVRC for the continued use of the Limay Refinery land for 30 years starting 1 January 2010 (renewable upon agreement of the parties for another 25 years). See "Certain Relationships and Related Transactions". The Company is currently in negotiations with PNOG for the early renewal of leases for 22 terminals, depots and sales offices and 68 service stations that will expire

in August 2018. Expenses relating to the PNOG leases paid directly to PNOG and through NVRC amounted to ₱261.3 million in 2013 and ₱109.9 million in the six months ended June 30, 2014.

The Company leases 104 parcels of land for service stations and depots from NVRC. Expenses relating to the NVRC leases amounted to ₱251.8 million in 2013 and ₱130.6 million in the six months ended June 30, 2014.

The Company also leases land for its service stations from third parties. Expenses under these leases amounted to ₱531.5 million in 2013 and ₱173.7 million in the six months ended June 30, 2014.

In Malaysia, the land on which the Company's retail service stations are based is either owned by the Company or leased from third parties. As of December 31, 2013, the Company owned 161 parcels of land for service stations and leased 274 additional parcels of land for its service stations from third parties. Rentals for the service station lands are either paid in advance and amortized over the lease period, or on scheduled payment over the lease period. The Port Dickson Refinery occupies a 604-acre site. The Company holds freehold title to 430 acres of this site and leases the remaining 174 acres pursuant to a 99-year lease that expires in 2060.

LEGAL PROCEEDINGS

As set forth below, the Company is involved in ongoing legal cases the outcome of which may or may not have a material adverse effect on its operations and profitability. While the final outcomes of these legal proceedings are not certain, the Company believes it has strong legal grounds in each of these legal proceedings, and has not made any provisions in its financial statements for possible liabilities arising from adverse results of these legal proceedings.

Tax Credit Certificates Related Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to Petron's use of ₱659 million of Tax Credit Certificate ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the 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. On June 17, 2013, Petron filed its comment on the petition for review filed by the BIR. The petition was still pending as of June 30, 2014.

Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of the Company, 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 Company, together with Shell and Chevron, entered into a Memorandum of Understanding ("MOU") with the City of Manila and the DOE, agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, the Social Justice Society ("SJS") filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, the 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 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 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 Company, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the "Water Code"). On February 13, 2008, the Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance 8027.

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

On August 24, 2012, the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. On September 25, 2012, the Company sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance 8119. In an Order dated December 18, 2012, the RTC of Manila denied the motion filed by the Company. The Company filed a notice of appeal on January 23, 2013. In an Order dated February 6, 2013, the RTC of Manila directed that the records of the case be forwarded to the Court of Appeals. On April 15, 2013, Petron received an Order dated April 1, 2013 requiring it to file its appellant’s brief. Petron submitted its appellant’s brief on July 29, 2013. On December 19, 2013, Petron, through its counsel, received the City of Manila’s appellee’s brief dated December 12, 2013. Petron filed its appellant’s reply brief on February 11, 2014. As of June 30, 2014, the appeal remained pending.

With regard to Ordinance 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinder of its implementation. The Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within 5 years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016. As of June 30, 2014, the petitions remained pending.

Oil Spill Incident in Guimaras

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

In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (Republic Act No. 9275, the “Clean Water Act”) and homicide and less serious physical injuries were filed against the 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 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. The external counsel for Petron advised that the case was no longer elevated to a higher court but the entry of judgment has not yet been issued by the trial court.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages

arising from the oil spill. The total claims for both cases amount to P292 million. Both cases were pending as of June 30, 2014.

Other Proceedings

The Company is also party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, the Company believes that the final outcome of these other proceedings will not have a material adverse effect on its business, financial condition or results of operations.

REGULATORY AND ENVIRONMENTAL MATTERS

The statements herein are based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the regulatory and environmental considerations that may be relevant to the Company or the offering.

PHILIPPINES

Downstream Oil Industry Deregulation Law

Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the "Oil Deregulation Law"), provides the regulatory framework for the downstream oil industry in the Philippines.

Under the Oil Deregulation Law, any person or entity may import or purchase any quantity of crude oil and petroleum products from foreign or domestic sources, lease or own and operate refineries and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement, provided that, among others such person or entity complies with certain requirements such as giving of prior notice to the DOE for monitoring purposes. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high quality petroleum products.

To ensure the attainment of these objectives, the DOE, in consultation with relevant government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Law in March 1998 through Department Circular No. 98-03-004. The rules require any person or entity engaged in any activity in the downstream oil industry to comply with the notice, reportorial, quality, health, safety and environmental requirements set forth therein.

The DOE is the lead government agency overseeing the oil sector. With the enactment of the Oil Deregulation Law, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory Board, leaving price-setting to market forces. DOE's current function is solely to monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Law include the following:

- (a) monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;
- (b) monitoring the refining and manufacturing processes of local petroleum products to ensure clean and safe technologies are applied;
- (c) maintaining a periodic schedule of present and future total industry inventory of petroleum products to determine the level of supply;
- (d) immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and
- (e) in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person or entity engaged in the industry.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate (the "ECC") prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau (the "EMB"), determines whether a project is environmentally critical or located in an environmentally critical area and processes all applications for an ECC. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement ("EIS") to the EMB while a non-environmentally critical project in an environmentally critical area is generally required to submit an Initial Environmental Examination (the "IEE") to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EIS and ECC are mandatory. Presidential Proclamation No. 2146 also classifies petroleum and petrochemical industries as environmentally critical projects.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Philippine government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the project's abandonment phase.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team, which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

The Biofuels Act of 2006

Republic Act No. 9367, also known as "The Biofuels Act of 2006", aims to reduce the dependence of the transport sector on imported fuel and, pursuant to such law, regulations mandate that all gasoline fuel sold by every oil company in the Philippines should contain a minimum 10% blend of bioethanol starting August 6, 2011. For diesel engines, the mandated biodiesel blend in the country was increased from 1% to 2% starting February 2009.

In 2008, a Joint Administrative Order known as the "Guidelines Governing the Biofuel Feedstock Production and Biofuels and Biofuel Blends Production, Distribution and Sale" (the "Guidelines") was issued by various Philippine government agencies. The Guidelines mandate oil companies to blend

biodiesel with diesel and bioethanol with gasoline. The Guidelines further require oil companies to source biofuels only from biofuel producers accredited by the DOE or from biofuel distributors registered with the DOE. Moreover, unless authorized by DOE to import in case of shortage of supply of locally-produced bioethanol as provided for under the Act, an oil company's failure to source its biofuels from accredited biofuels producers and/or registered biofuel distributors would constitute a prohibited act.

In 2011, the DOE issued Circular No. 2011-12-0013, entitled "Guidelines on the Utilization of Locally-Produced Bioethanol in the Production of E-Gasoline Consistent with the Biofuels Act of 2006" (the "Circular"). The Circular requires oil companies operating in the Philippines to submit to the DOE's Oil Industry Management Bureau certain reports in order for the Oil Industry Management Bureau to monitor the oil companies' compliance with the Circular, including a quarterly certification on compliance with local monthly allocations for the use of locally-sourced bioethanol during the previous quarter and the 10% mandated blend of biofuel by volume into all gasoline fuel distributed and sold.

Renewable Energy Act of 2008

Republic Act No. 9513, also known as "The Renewable Energy Act" aims to promote development and commercialization of renewable and environment-friendly energy resources such as biomass, solar, wind, hydro, geothermal, and energy sources through various tax incentives. The tax incentives granted to renewable energy developers under the law include (i) a seven-year income tax holiday; (ii) duty free importation of renewable energy machinery, equipment, and materials; (iii) special realty tax rates on equipment and machinery; (iv) zero percent VAT rate for the sale of power-generated from these energy sources; (v) the imposition of a reduced corporate tax of 10% on its net taxable income after the income tax holiday; (vi) tax exemption of carbon credits; and (vii) subject to prior approval of the DOE and under certain circumstances, tax credit on domestic capital equipment and services.

Philippine Clean Air Act of 1999

Republic Act No. 8749, otherwise known as the "Philippine Clean Air Act", provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Philippine Clean Air Act specifies the allowable sulfur and benzene content for gasoline and automotive diesel. Under the law, oil firms are mandated to lower the sulfur content of automotive diesel oils to 0.05% by weight by January 1, 2004 nationwide. The law also prohibits a manufacturer, processor or trader of any fuel or additive to import, sell, offer for sale, or introduce into commerce such fuel or fuel additive unless these have been registered with the DOE. All the requirements of the said law have been implemented, starting with the phase-out of leaded gasoline in Metro Manila in April 2000 and all over the country in December 2000.

The Technical Committee on Petroleum Products and Additives sets the standards for all types of fuel and fuel related products, to improve fuel consumption for increased efficiency and reduced emissions. The committee is guided by strict time-bound and quality-specific targets under the mandate of the Philippine Clean Air Act and the DOE initiative on alternative fuels.

Philippine Clean Water Act of 2004

In 2004, Republic Act No. 9275, or the "Philippine Clean Water Act", was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country's water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land based sources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Philippine Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law. The Philippine Water Act also authorizes the DENR to formulate water quality criteria and standards for oil and gas exploration which encounter re-injection constraints.

LPG Laws and Regulations

B.P. 33

B.P. 33, as amended by PD 1865, provides for certain prohibited acts inimical to public interest and national security involving petroleum and/or petroleum products. These prohibited acts include, among others, (i) illegal trading in petroleum and/or petroleum products, and (ii) underdelivery or underfilling beyond authorized limits in the sale of petroleum products or possession of underfilled liquefied petroleum gas cylinder for the purpose of sale, distribution, transportation, exchange or barter. For this purpose, the existence of the facts hereunder gives rise to the following presumptions:

- a. That cylinders containing less than the required quantity of liquefied petroleum gas which are not properly identified, tagged and set apart and removed or taken out from the display area and made accessible to the public by marketers, dealers, sub-dealers or retail outlets are presumed to be for sale;
- b. In the case of a dispensing pump in a petroleum products retail outlet selling such products to the public, the absence of an out-of-order sign, or padlocks, attached or affixed to the pump to prevent delivery of petroleum products therefrom shall constitute a presumption of the actual use of the pump in the sale or delivery of such petroleum products; and
- c. When the seal, whether official or of the oil company, affixed to the dispensing pump, tank truck or liquefied petroleum gas cylinder, is broken or is absent or removed, it shall give rise to the presumption that the dispensing pump is underdelivering, or that the liquefied petroleum gas cylinder is underfilled, or that the tank truck contains adulterated finished petroleum products or is underfilled.

The use of such pumps, cylinders or containers referred to in sub-paragraph (a), (b), and (c) above, to deliver products for sale or distribution shall constitute prima facie evidence of intent of the hauler, marketer, refiller, dealer, retailer outlet operator to defraud.

Under the said law, "Illegal trading in petroleum and/or petroleum products" is understood to mean, among others, (1) the sale or distribution of petroleum products without license or authority from the Oil Industry Management Bureau ("OIMB"), (2) non-issuance of receipts by licensed oil companies, marketers, distributors, dealers, subdealers and other retail outlets, to final consumers; provided: that such receipts, in the case of gas cylinders, shall indicate therein the brand name, tare weight, gross weight, and price thereof, (3) refilling of liquefied petroleum gas cylinders without authority from the Oil Industry Management Bureau, or refilling of another company's or firm's cylinders without such company's or firm's written authorization, and (4) marking or using in such cylinders a tare weight other than the actual or true tare weight thereof.

"Underfilling" or "underdelivery" refers to a sale, transfer, delivery or filling of petroleum products of a quantity that is actually beyond authorized limits than the quantity indicated or registered on the metering device of container. This refers, among others, to the quantity of petroleum retail outlets or to liquefied petroleum gas in cylinder or to lube oils in packages.

R.A. 9514 - IRR

The Implementing Rules and Regulations of Republic Act No. 9514 or the Fire Code of 2008 also outlines requirements for storage and handling of LPG by outside bulk LPG stores and filling stations and the transportation of LPG which require among others, that during the unloading or transfer of LPG, the tank truck shall be located or parked clear of a public thoroughfare, unless the failure to transfer would create a hazard or it is impossible due to topography.

LPG Industry Rules

In January 2014, the Department of Energy issued Department Circular 2014-01-0001, or the Rules and Regulations Governing the Liquefied Petroleum Gas Industry (the "LPG Industry Rules"). The LPG Industry Rules apply to all persons engaged or intending to engage in the business of importing, refining, refilling, marketing, distributing, handling, storing, retailing, selling and/or trading of LPG.

A Standards Compliance Certificate ("SCC") from the OIMB is required before engaging in any LPG Industry Activity. The SCC is valid for a maximum of three (3) calendar years from date of issue and may be renewed. LPG Industry participants must also submit certain reports to the OIMB.

The LPG Industry Rules also imposes (i) minimum standards and requirements for refilling and transportation of LPG; (ii) qualifications and responsibilities for LPG Industry participants such as bulk suppliers, refillers, marketers, dealers, and retail outlets.

Brand owners whose permanent mark appears on the LPG cylinder are presumed under the rules as the owner thereof, irrespective of their custody, and shall ensure that its cylinders comply with all required quality and safety standards. The owner of the cylinders is also required to secure product liability insurance for any liability that may result from an unsafe condition of LPG cylinders.

Rules Pertinent to Auto-LPG Motor Vehicles

On 13 February 2007, the DOE issued DOE Circular No. DC 2007-02-0002 entitled "Providing for the Rules and Regulations Governing the Business of Supplying, Hauling, Storage, Handling, Marketing and Distribution of Liquefied Petroleum Gas (LPG) for Automotive Use" (the "Auto-LPG Rules"). The Auto-LPG Rules govern the business of supplying, hauling, storage, handling, marketing and distribution of LPG for automotive use.

Under the rules, an Auto-LPG Industry Participant is required to secure from the DOE through the OIMB, an SCC before it can operate. The Auto-LPG also mandates all participants to observe a code of practice consisting of operational guidelines and procedures to ensure the safe operation in the auto LPG business. Illegal trading, adulteration and hoarding are likewise prohibited. Under the Auto-LPG Rules, the following shall constitute prima facie evidence of hoarding: (i) the refusal of Auto-LPG Dispensing Stations to sell LPG products for automotive use shortly before a price increase or in times of tight supply, and in both instances if the buyer or consumer has the ability to pay in cash for the product; (ii) the undue accumulation of Auto-LPG Dispensing Stations of LPG products for automotive use in times of tight supply or shortly before a price increase. For purposes of this Auto LPG Rules, "undue accumulation" shall mean the keeping or stocking of quantities of LPG products for automotive use beyond the inventory levels as required to be maintained by the Auto-LPG Dispensing Stations, for a period of thirty (30) days immediately preceding the period of tight supply or price increase.

The Land Transportation Office ("LTO") also issued Memorandum Circular No. RIB-2007-891 or the "Implementing Rules and Regulations in the Inspection and Registration of Auto-LPG Motor Vehicles". The Circular requires the device for the use of LPG as fuel by any motor vehicle to be installed only by the conversion/installing shop duly certified by the Bureau of Product and Standards ("BPS") of the DTI under its Philippine Standards Certification Mark ("PS Mark") scheme. The converted vehicle shall be subjected to an annual maintenance and inspection by the BPS certified conversion/installing shop. The BPS certified conversion/installing shop shall issue a corresponding Certificate of Inspection and Maintenance Compliance ("CIMC").

Oil Pollution Compensation Act of 2007

Republic Act No. 9483, otherwise known as the Oil Pollution Compensation Act of 2007, imposes strict liability on the owner of the ship for any pollution damage caused within the Philippine territory. Pollution damage is the damage caused outside the ship by contamination due to the discharge of oil from the ship, it also includes the cost of preventive measures and further damage from thereof.

The law also provides that any person who has received more than 150,000 tons of “contributing oil” (as explained below) in a calendar year in all ports or terminal installations in the Philippines through carriage by sea shall pay contributions to the International Oil Pollution Compensation Fund in accordance with the provisions of the 1992 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage. For this purpose, “oil” includes any persistent hydrocarbon mineral oil such as crude oil, fuel oil, heavy diesel oil and lubricating oil, whether carried on board a ship as cargo or in bunkers of such a ship.

A person shall be deemed to have received “contributing oil,” for purposes of determining required contributions, if he received such oil from another country or from another port or terminal installation within the Philippines, notwithstanding that this oil had already been previously received by him. Where the quantity of contributing oil received by any person in the Philippines in a calendar year, when aggregated with the quantity of contributing oil received in the Philippines in that year by such person’s subsidiaries or affiliates, exceeds 150,000 tons, such person, including its subsidiaries and affiliates, shall pay contributions in respect of the actual quantity received by each, notwithstanding that the actual quantity received by each did not exceed 150,000 tons. Persons who received contributing oil are required to report the quantity of such oil received to the DOE. Contributing oil means crude oil and fuel oil as defined under Republic Act No. 9483.

Other Regulations on Water Pollution

Philippine maritime laws and regulations are enforced by two Philippine government agencies: the Maritime Industry Authority (“MARINA”) and the Philippine Coast Guard. Both are agencies under the DOTC.

The MARINA is responsible for integrating the development, promotion, and regulation of the maritime industry in the Philippines. It exercises jurisdiction over the development, promotion, and regulation of all enterprises engaged in the business of designing, constructing, manufacturing, acquiring, operating, supplying, repairing, and/or maintaining vessels, or component parts thereof, of managing and/or operating shipping lines, shipyards, dry docks, marine railways, marine repair ships, shipping and freight forwarding agencies, and similar enterprises.

To address issues on marine pollution and oil spillage, MARINA issued: (i) Circular No. 2007-01 which mandated the use of double-hull vessels for oil tankers, including those below 500 tons deadweight tonnage by the end of 2008 for transporting Black Products; and (ii) Circular No. 2010-01 for transporting White Products in certain circumstances by 2011.

The Philippine Coast Guard, in a 2005 Memorandum Circular, provided implementing guidelines based on the International Convention for the Prevention of Pollution from Ships, MARPOL 73/78. The guidelines provide that oil companies in major ports or terminals/depots are required to inform the Philippine Coast Guard through its nearest station of all transfer operations of oil cargoes in their respective areas. Furthermore, oil companies and tanker owners are required to conduct regular team trainings on managing oil spill operations including the handling and operations of MARPOL combating equipment. A dedicated oil spill response team is required to be organized to react to land and ship-originated oil spills. Oil companies, oil explorers, natural gas explorers, power plants/barges and tanker owners are also required to develop shipboard oil pollution emergency plans to be approved by the PCG.

Moreover, both the Philippine Clean Water Act and the Philippine Coast Guard Guidelines provide that the spiller or the person who causes the pollution have the primary responsibility of conducting clean-up operations at its own expense.

Foreign Investment Laws and Restrictions

Retail Trade Liberalization Act

Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 ("R.A. 8762"), was enacted into law on March 7, 2000. R.A. 8762 liberalized the Philippine retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of R.A. 8762, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

"Retail Trade" is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities, or goods for consumption. The law provides that foreign-owned partnerships, associations and corporations formed and organized under the laws of the Philippines may, upon registration with the SEC and the Philippine Department of Trade and Industry ("DTI") or in case of foreign owned single proprietorships, with the DTI, engage or invest in the retail trade business, in accordance with the following categories:

- Category A—Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than US\$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly-owned by Filipino citizens.
- Category B—Enterprises with a minimum paid-up capital of the equivalent in Philippine Pesos of US\$2.5 million but less than US\$7.5 million may be wholly owned by foreigners except for the first two years after the effectiveness of R.A. 8762 wherein foreign participation shall be limited to not more than 60% of total equity.
- Category C—Enterprises with a paid-up capital of the equivalent in Philippine Pesos of US\$7.5 million or more may be wholly owned by foreigners, provided, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Philippine Pesos of US\$830,000¹; and
- Category D—Enterprises specializing in high-end or luxury products with a paid up capital of the equivalent in Philippine Pesos of US\$250,000 per store may be wholly-owned by foreigners.

No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

- A minimum of US\$200 million net worth in its parent corporation for categories B and C, and US\$50 million net worth in its parent corporation for category D;
- Five retail branches or franchises in operation anywhere around the world unless such retailers has at least one store capitalized at a minimum of US\$25 million;
- Five-year track record in retail; and
- Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers, shall be allowed to engage in retail trade in the Philippines.

The implementing rules of R.A. 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly-owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers, subject to the provisions of R.A. 8762, before they are allowed to conduct business in the Philippines.

Foreign Investment Act of 1991

¹ Category C ceased to be available as a permitted category with effect from March 25, 2002.

The Foreign Investment Act of 1991 (“FIA”) liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Foreign Investment Negative List. This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. The oil refining and distribution business is not found in the latest (9th) Negative List of the FIA.

In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

For the purpose of complying with nationality laws, the term “Philippine National” is defined under the FIA as any of the following:

- (a) a citizen of the Philippines;
- (b) a domestic partnership or association wholly-owned by citizens of the Philippines;
- (c) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- (d) a corporation organized abroad and registered to do business in the Philippines under the Philippine Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or
- (e) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100% Filipino-owned corporation. A corporation with more than 40% foreign equity may be allowed to lease private land for a period of 25 years, renewable for another 25 years.

Local Government Code

The Local Government Code (“LGC”) establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The LGC general welfare clause states that every local government unit (“LGU”) shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Other Regulatory Requirements

Governmental approval of the Company’s products and services is generally not required. However, petroleum products refined at the Limay Refinery are subject to PNS specifications. The DTI, through the Bureau of Products Standards, ensures that all products comply with the specifications of the PNS. The Oil Deregulation Law also requires the registration with the DOE of any fuel additive prior to its use in a product.

Philippine government regulations also require the following: fire safety inspection certificates; certificates of conformance of facilities to national or accepted international standards on health, safety and environment; product liability insurance certificates or product certificate of quality; and the ECC issued by the DENR for service stations and for environmentally-critical projects. These certificates have to be submitted to the DOE for monitoring (not regulation) purposes. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining, processing, including recycling and blending; (b) storing/trans-shipment; (c) distribution/operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plant; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper governmental authorities.

Other Relevant Tax-related Regulations

Taxes and duties applicable to the oil industry have had periodic and unpredictable changes over the last several years. The import duty on crude oil was increased on January 1, 2005 from 3% to 5%, but was later reduced to 3% effective as of November 1, 2005.

Under Executive Order No. 527 dated May 12, 2006, upon certification by the DOE that the trigger price levels provided therein have been reached, the 3% import duty on crude oil shall be adjusted to 2%, 1% or 0%. Subsequently, Executive Order No. 850, which took effect on January 1, 2010, modified the rates of duty on certain imported articles in order to implement the Philippines' commitment to eliminate the tariff rates on certain products under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area ASEAN Trade in Goods Agreement ("ATIGA"). Under the ATIGA, crude oil and refined petroleum products imported from Association of Southeast Asian Nations ("ASEAN") Member States are levied zero rates. To address the tariff distortion between ASEAN and non-ASEAN Member States brought about by the implementation of the zero duty under Executive Order No. 850 and to provide a level playing field for local refiners to compete with importers, the President of the Philippines issued Executive Order No. 890, which also imposed zero duty effective as of July 4, 2010 for imported crude oil and refined petroleum products, except certain types of aviation gas, from Non-ASEAN Member States.

Republic Act No. 9337, also known as the "Expanded VAT Law", imposed a VAT of 10% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was further increased to 12% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70% ceiling on the credit of input VAT to output VAT. As of November 1, 2005, the implementation date of the Expanded VAT Law, excise taxes on diesel, bunker fuel and kerosene were lifted and excise taxes for regular gasoline were lowered to ₱4.35 per liter of volume capacity.

In February 2012, the BIR issued Revenue Regulation No. 2-2012 stating that VAT and excise taxes due on all petroleum and petroleum products that are imported and/or brought from abroad to the Philippines, including from the freeport and economic zones, shall be paid by the importer to the Philippine Bureau of Customs.

MALAYSIA

Petroleum Development Act, 1974

The Petroleum Development Act, 1974 (the "PDA"), which came into force on October 1, 1974, and the Petroleum Regulation 1974, which was enacted pursuant to the PDA (the "Petroleum Regulation"), are the primary legislation governing downstream oil activities in Malaysia. Pursuant to the Petroleum Regulation, two government bodies are vested with powers to regulate all downstream activities, namely:

- (a) the Ministry of International Trade and Industry ("MITI"), which is responsible for the issuance of licenses for the processing and refining of petroleum and the manufacture of petrochemical products; and

- (b) the Ministry of Domestic Trade, Cooperative and Consumerism (“MDTCC”), which is responsible for regulating the marketing and distribution of petroleum products.

The Company has obtained specific licenses from the MITI for the production of the Company’s products. Specific licenses are required pursuant to Section 6 of the PDA for the business of processing or refining petroleum or manufacturing petrochemical products from petroleum at the Port Dickson Refinery. Contravention of the provisions of the PDA or failure to comply with any term or condition of any permission granted thereunder is an offense and is subject to a fine not exceeding RM1 million or imprisonment for a term not exceeding five years or both.

Petroleum (Safety Measures) Act, 1984

The storage and handling of crude oil and oil products and the utilization of equipment and/or appliances used in the downstream oil industry in Malaysia are controlled and governed by the Petroleum (Safety Measures) Act, 1984 (the “PSMA”) and the regulations made thereunder. The PSMA also regulates the transportation of petroleum by road, railway, water, air and pipeline. A unit of the MDTCC known as The Petroleum Safety Unit has been established to administer the PSMA.

Biofuel Industry Act, 2007

The Biofuel Industry Act, 2007 (the “MBIA”) was enacted on July 18, 2007. The MBIA provides for the mandatory use of biofuel, the licensing of activities relating to biofuel and other matters connected and incidental thereto. The MBIA is designed to regulate the biofuel industry in Malaysia and to promote the mandatory use of Malaysia’s domestic palm biodiesel, which is a blend of 5% POME and 95% diesel. The MBIA empowers the Minister of Plantation Industries and Commodities to prescribe (a) the percentage by volume of palm ole and/or methyl ester to be blended in any fuel or (b) the activities in which the use of (i) palm ole and/or methyl ester, (ii) palm ole and/or methyl ester blended with any other fuel or (iii) any other biofuel is to be made mandatory. The MBIA limits the percentage of POME that can be used in a biodiesel mix to a maximum of 5%. Full implementation throughout Peninsular Malaysia is expected by the third quarter of 2014.

Sale and Pricing of Refined Petroleum Products

Control of Supplies Act, 1961

The Control of Supplies Act, 1961 (the “CSA”) was enacted primarily to regulate, prohibit and control the movement of controlled articles in Malaysia. The CSA also regulates the distribution of any controlled article and limits the quantity of any controlled article that may be acquired or held by any person. Petrol, motor spirit, or motor gasoline of all grades, diesel fuel and LPG have all been classified as controlled articles under the CSA.

Pursuant to the Control of Supplies Regulations 1974, issued pursuant to the CSA, a license is required for any person to deal, by wholesale or retail, in any scheduled article (including petrol, motor spirit, or motor gasoline of all grades, diesel fuel and LPG) or to manufacture any scheduled article. A separate license is required for each place of business where the scheduled article is manufactured or sold. The Controller of Supplies has the authority to enforce the rules and regulations provided in the CSA and related regulations.

Price Control and Anti Profiteering Act, 2011

The Price Control and Anti Profiteering Act, 2011 (the “PCAPA”) replaced the Price Control Act, 1946 and came into force on April 1, 2011. The PCAPA provides for the control of prices of goods, whereby the Malaysian government may, among other things, determine the maximum, minimum or fixed prices for the manufacture, production, wholesale or retail of goods.

The Malaysian Government generally mandates fixed prices for (a) sales of formulated unleaded gasoline fuel with an octane index of 95 ("Mogas 95"), (b) diesel sales to retail customers, as well as to the commercial transportation and fisheries sectors, and (c) LPG sales to retail customers, to ensure that increases in international crude oil prices are not borne fully by consumers of such products in Malaysia. Subject to a quota, the Malaysian government subsidizes sales of these products using a formula known as the APM. A subsidy is payable to the seller pursuant to the APM if the mandated price of the relevant product is less than the total built-up cost of such product. Conversely, a sales tax is payable by the seller if the mandated price of the relevant product exceeds the total built-up cost of such product.

The sale of diesel in Malaysia is subject to a quota system to ensure that subsidized diesel is not sold illegally to industrial customers at higher, unregulated, prices. Accordingly, the Company is required to manage its subsidized diesel sales on a monthly basis to ensure that such sales do not exceed the amount permitted under the Company's quotas. The Company has a quota to sell diesel at all of its retail service stations in Malaysia. Customers in the commercial transportation and fisheries sectors are required to obtain their own quotas in order to be able to purchase diesel from the Company. The Company has also been licensed to supply distributors that are appointed by the Malaysian government to sell diesel to unbranded mini stations and to collect subsidies in respect of such sales.

The Company's quotas for subsidized diesel sales are provided and regulated by the MDTCC, which reviews the quotas on a quarterly basis. If the Company requires an increase in its approved quota during any quarter as a result of an increase in demand, it may apply to the MDTCC for a quota increase in respect of a specific month during that quarter. If the Company sells more subsidized diesel than is permitted under the approved quotas, it will not be eligible to receive a government subsidy in respect of the sales that exceed the approved quotas.

Environmental Laws

Environmental Quality Act, 1974

The Environmental Quality Act, 1974 (the "EQA") governs the prevention, abatement and control of pollution and enhancement of the environment in Malaysia and covers, among other things, oil spills and pollutants on land and in Malaysian waters. The EQA, which was introduced by the Malaysian government to promote environmentally sound and sustainable development restricts atmospheric, noise, soil and inland-water pollution without a license, prohibits the discharge of oil and waste into Malaysian waters without a license and prohibits open burning. The Department of Environment (the "MDOE") is the regulatory body with responsibility for administering the EQA and any regulations and orders made thereunder.

The MDOE will also have responsibility for monitoring the implementation of and compliance with Euro 4M standards in Malaysia, which are the Malaysian equivalent of Euro IV-standard fuels. The main change from the current Euro 2M standards to Euro 4M standards for diesel and Mogas 95 will be the reduction in sulfur content from 500 parts-per-million ("ppm") to 50 ppm, consistent with Euro IV standards. It is currently expected that Malaysian downstream oil companies will be required to comply with Euro 4M standards in stages. RON 97 gasoline is expected to comply with Euro 4M standards by September 1, 2015, whereas RON 95 gasoline is required to be Euro 4M compliant by October 1, 2018.

In relation to diesel, the current plan by the Malaysian government is to move towards Euro 5M with a reduction in sulfur content to 10 ppm. However the implementation date being considered for this is September 1, 2020.

The Malaysian government has also indicated that it expects RON 97 and RON 95 gasoline to be Euro 5M compliant by September 1, 2025.

A study to enhance the facilities at the Port Dickson Refinery to comply with relevant Euro 4M/Euro 5M standards is currently underway, and these enhancements are expected to be completed before Euro 4M/Euro 5M standards come into force. The formulation of Euro 4M/Euro 5M specifications will be

finalized by SIRIM Berhad in conjunction with other interested parties, including Malaysian oil companies, the Malaysian car manufacturers' association, and regulatory bodies, such as the MDTCC and the MDOE. SIRIM Berhad, which is the standards agency for Malaysia, is a wholly-owned company of the Malaysian government incorporated under the Malaysian Ministry of Finance.

Other Regulatory Requirements

The Company has a general duty pursuant to the Occupational Safety and Health Act, 1994 and the regulations made thereunder to (a) provide and maintain plants and systems of work that are, to the extent practicable, safe and without risks to health, (b) provide information, instruction, training and supervision to ensure, to the extent practicable, the safety and health of the Company's employees at work and (c) provide a working environment that is, to the extent practicable, safe, without risk to health and adequate with respect to facilities related to employee welfare at work. The Company also has a duty to ensure, to the extent practicable, that other persons who are not employees of the Company are not affected by, and are not exposed to risks to their safety or health by, the conduct of the Company's business. As the Company employs more than 100 employees in Malaysia, it must employ a safety and health officer, who is tasked with ensuring the due observance of statutory obligations with respect to workplace health and safety and the promotion of safe work conduct at the workplace.

CORPORATE GOVERNANCE AND MANAGEMENT

The Board of Petron is composed of 15 members, three of whom are Independent Directors. Currently, only two of the members are Executive Directors, occupying the positions of the Chairman and Chief Executive Officer and the President of the Company. The Directors sign Conflict-of-Interest Statements, disclosing their respective business interests, to ensure that these are not in competition with the business of Petron. The schedule of board meetings for an entire year is presented to the Board at the last meeting of the preceding year and board materials are given at least a day prior to every meeting. All directors and key officers are required to attend basic corporate governance seminar at least once a year.

To instill a stable and transparent process of conducting business and, at the same time, identifying accountability at all times, the Company has a system of approvals set out in a resolution that is yearly reviewed and endorsed by the Board Audit Committee and approved by the Board (and amended with the approval by the Board as exigencies arise) whereby only authorized individual(s) can approve a particular business transaction based on an authorized amount. Aside from the Revised Corporate Governance Manual of the Company, several other manuals and policies have been instituted by Management to establish company policies and guide the employees in carrying out their respective functions and duties, address business operations, set contracting and bidding procedures, and promote and further business ethics, office decorum and employee discipline. All these manuals and policies are accessible by Petron employees through the Company intranet.

With the election of three independent Directors to the Petron Board; the election of members of the Audit, Compensation, Nomination, and Governance Committees; the conduct of regular quarterly board meetings, special board meetings and board committee meetings and the faithful attendance of the Directors at such meetings; the proper discharge of duties and responsibilities by the Directors; the conduct of a regular training/seminar for corporate governance for Directors and key officers; and adherence to national and local laws pertaining to its business operations, including applicable accounting standards and disclosure requirements, the Company is in compliance with its Revised Corporate Governance Manual.

The Company has adopted a performance evaluation system to assess the performance of its Directors, the board committees and the Board itself through an annual self-assessment.

BOARD OF DIRECTORS AND MANAGEMENT OF THE COMPANY

Set out below are the name, position and year of appointment of members of the Board of the Company as of the date of this Prospectus.

Name	Position	Year Appointed
Ramon S. Ang	Chairman and Chief Executive Officer	2009
Lubin B. Nepomuceno	President and Director	2013
Eric O. Recto	Director	2008
Eduardo M. Cojuangco, Jr	Director	2009
Estelito P. Mendoza	Director	2009
Jose P. de Jesus	Director	2014
Ron W. Haddock	Director	2008
Aurora T. Calderon	Director	2010
Mirzan Mahathir	Director	2010
Ma. Romela M. Bengzon	Director	2010
Virgilio S. Jacinto	Director	2010
Nelly F. Villafuerte	Director	2011
Reynaldo G. David	Independent Director	2009
Artemio V. Panganiban	Independent Director	2010
Margarito B. Teves	Independent Director	2014

Certain information on the business and working experiences of the Directors is set out below.

Ramon S. Ang, Filipino, born 1954, has served as the Chairman, the Chief Executive Officer and an Executive Director of the Company since January 8, 2009. He is also the Chairman of the Company's Executive Committee and Compensation Committee. He holds the following positions, among others: Chairman of Petron Malaysia Refining & Marketing Berhad ("PMRMB"), Las Lucas Construction and Development Corporation ("LLCDC"), NVRC, and SRC; Chairman and Chief Executive Officer of PMC and Petron Freeport Corporation ("PFC"); Chairman and President of Mariveles Landco Corporation, PAHL, PPI and Robinson International Holdings Ltd.; Director of Petron Fuel International Sdn Bhd. ("PFISB"), Petron Oil (M) Sdn Bhd. ("POMSB"), Petron Oil & Gas Mauritius Ltd. ("POGM") and Petron Oil & Gas International Sdn Bhd. ("POGI"); Vice Chairman, President and Chief Operating Officer of SMC; President and Chief Operating Officer of Philippine Airlines, Inc. ("PAL") and PAL Holdings, Inc.; Chairman of San Miguel Brewery Inc., San Miguel Foods, Inc., The Purefoods-Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, South Luzon Tollway Corporation, Eastern Telecommunications Philippines Inc., Liberty Telecoms Holdings, Inc., and Philippine Diamond Hotel & Resort Inc.; Chairman and Chief Executive Officer of SMC Global Power Holdings Corp.; Chairman and President of San Miguel Properties, Inc., Bell Telecommunication Philippines, Inc., Atea Tierra Corporation, Cyber Bay Corporation and Philippine Oriental Realty Development Inc.; Vice Chairman of Ginebra San Miguel, Inc. ("GSMI") and San Miguel Pure Foods Company, Inc. ("SMPFC"); and President and CEO of Top Frontier Investment Holdings Inc. ("Top Frontier"); and Director of other subsidiaries and affiliates of SMC in the Philippines and the Southeast Asia Region.

Lubin B. Nepomuceno, Filipino, born 1951, has served as the President of the Company since February 19, 2013. He is also a member of the Company's Executive Committee, Audit Committee and Compensation Committee. He holds the following positions, among others: President of PMC; Chairman of Petrogen Insurance Corporation ("Petrogen") and Overseas Insurance Corporation ("Ovincor"); Director of POGI, PMRMB, PFISB, POMSB, LLCDC, NVRC, PFC, PPI, PAHL, Mariveles Landco Corporation, Robinson International Holdings, Ltd. and Petron Singapore Trading Pte. Ltd. ("PSTPL"); Trustee of Petron Foundation, Inc. ("PFI"); Director of San Miguel Paper Packaging Corporation and Mindanao Corrugated Fibreboard Inc.; Independent Director of MNHPI and President of Archen Technologies, Inc.

Mr. Nepomuceno has held various board and executive positions in the San Miguel group and was formerly the Senior Vice President and General Manager of the Company from September 2009 to February 2013.

Eric O. Recto, Filipino, born 1963, has served as a Director of the Company since July 31, 2008. He holds the following positions, among others: Chairman and Chief Executive Officer of PFI; Director of PMC; Chairman of Philippine Bank of Communications; Chairman and CEO of ISM Communications Corporation (“ISM”); Vice Chairman of Philweb Corporation (“Philweb”) and Atok-Big Wedge Corporation (“ATOK”); and President and Director of Q-Tech Alliance Holdings, Inc. Mr. Recto was previously the Vice Chairman of the Company, and a Director of PMRMB, Ovincor, POGI, POGM and the Manila Electric Company (“MERALCO”). He was formerly the Undersecretary of the Philippine Department of Finance, in charge of both the International Finance Group and the Privatization Office from 2002 to 2005. He also served as the Chairman of Petrogen and President of the Company (2008-2013) and as Senior Vice President and Chief Finance Officer of Alaska Milk Corporation (2000-2002) and Belle Corporation (1994-2000).

Eduardo M. Cojuangco, Jr., Filipino, born 1935, has served as a Director of the Company since January 8, 2009. He holds the following positions, among others: Chairman and Chief Executive Officer of SMC and GSMI; Chairman of ECJ & Sons Agricultural Enterprises Inc., Eduardo Cojuangco Jr. Foundation Inc. and SMPFC; and Director of Caiñaman Farms Inc. Mr. Cojuangco was formerly a director of MERALCO, member of the Philippine House of Representatives (1970-1972), Governor of Tarlac Province (1967-1979) and Philippine Ambassador Plenipotentiary. He also served as the President and Chief Executive Officer of United Coconut Planters Bank, President and Director of United Coconut Life Assurance Corporation, and Governor of the Development Bank of the Philippines.

Estelito P. Mendoza, Filipino, born 1930, served as a Director of the Company from 1974 to 1986; thereafter, since January 8, 2009. He is a member of the Nomination Committee and Audit Committee. He holds the following positions, among others: Director of SMC, Philippine National Bank (“PNB”) and PAL. He has previously served as a Director of MERALCO. He has now been engaged in the practice of law for more than 60 years, and presently under the firm name Estelito P. Mendoza and Associates. He has consistently been listed as a “Leading Individual in Dispute Resolution” among lawyers in the Philippines in the following directories/journals: “The Asia Legal 500”, “Chambers of Asia” and “Which Lawyer?” yearbooks for several years. He has also been a Professorial Lecturer of law at the University of the Philippines and served as Philippine Solicitor General (1972-1986), Philippine Minister of Justice (1984-1986), Member of the Philippine *Batasang Pambansa* (1984-1986) and Governor of the province of Pampanga (1980-1986). He was also the Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He is the recipient on June 28, 2010 of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns and was also awarded by the University of the Philippines Alumni Association its 1975 “Professional Award in Law” and in 2013 its “Lifetime Distinguished Achievement Award”.

Jose P. De Jesus, Filipino, born 1934, has served as a Director of the Company since May 20, 2014. He is the President and Chief Executive Officer of Nationwide Development Corporation. He was the President and Chief Operating Officer of MERALCO from February 2009 to June 2010, the Secretary of the Department of Transportation and Communications from July 2010 to June 2011, and the President and Chief Executive Officer of Manila North Tollways Corporation from January 2000 to December 2008. He was a *Lux in Domino Awardee* (Most Outstanding Alumnus) of the Ateneo de Manila University in July 2012. He is also a Director of Nationwide Development Corporation and KingKing Gold & Copper Mines, Inc. He is a Trustee of Bantayog ng mga Bayani Foundation, Eisenhower Fellowship Association of the Philippines, Kapampangan Development Foundation and Holy Angel University.

Ron W. Haddock, American, born 1940, has served as a Director of the Company since December 2, 2008. He holds the following positions, among others: Executive Chairman of AEI Services, L.L.C. and member of the board of Alon Energy USA. Mr. Haddock was formerly Honorary Consul of Belgium in Dallas, Texas. He also served as Chairman of Safety-Kleen Systems, Chairman and Chief Executive Officer of Prisma Energy International and FINA, and held various management positions in Exxon

including: Manager of Baytown Refinery; Corporate Planning Manager; Vice President for Refining; Executive Assistant to the Chairman; and Vice President and Director of Esso Eastern, Inc.

Aurora T. Calderon, Filipino, born 1954, has served as a Director of the Company since August 13, 2010. She is a member of the Audit Committee and the Compensation Committee. She holds the following positions, among others: Senior Vice President and Senior Executive Assistant to the President and Chief Operating Officer of SMC; Director of PMRMB, POGM, POGI, PMC, PFC, SRC, NVRC, LLCDC, Thai San Miguel Liquor Co., Ltd., SMC Global Power Holdings Corp., Rapid Thoroughfares Inc., Trans Aire Development Holdings Corp., Vega Telecom, Inc., Bell Telecommunications Company, Inc., A.G.N. Philippines, Inc. and various subsidiaries of SMC; Director of PAL Holdings; and Director and Treasurer of Top Frontier. She has served as a Director of MERALCO (January 2009-May 2009), Senior Vice President of Guoco Holdings (1994-1998), Chief Financial Officer and Assistant to the President of PICOP Resources (1990-1998) and Assistant to the President and Strategic Planning at the Elizalde Group (1981-1989).

Mirzan Mahathir, Malaysian, born 1958, has served as a Director of the Company since August 13, 2010. Among other positions, he is currently the Chairman and Chief Executive Officer of Crescent Capital Sdn Bhd. He holds directorships in several public companies in South East Asia and the United States. He also serves as President of the Asian Strategy & Leadership Institute, Chairman of several charitable foundations and a member of the Wharton Business School Executive Board for Asia and the Business Advisory Council of United Nations ESCAP. He was formerly the Executive Chairman and President of Konsortium Logistik Berhad (1992-2007), Executive Chairman of Sabit Sdn Bhd (1990-1992), Associate of Salomon Brothers in New York, U.S.A. (1986-1990) and Systems Engineer at IBM World Trade Corporation (1982-1985).

Ma. Romela M. Bengzon, Filipino, born 1960, has served as a Director of the Company since August 13, 2010. She holds the following positions, among others: Director of PMC; Managing Partner of the Bengzon Law Firm; and professor at the De La Salle University Graduate School of Business, Far Eastern University Institute of Law MBA-JD Program, the Ateneo Graduate School of Business and Regis University. She was formerly a Philippine government Honorary Trade Ambassador to the European Union, and Chairperson of the Committee on Economic Liberalization and Deputy Secretary General of the Consultative Commission, both under the Philippine Office of the President.

Virgilio S. Jacinto, Filipino, born 1956, has served as a Director of the Company since August 13, 2010. He holds the following positions, among others: Corporate Secretary, Compliance Officer, Senior Vice President and General Counsel of SMC; Director of San Miguel Brewery Inc.; Corporate Secretary and Compliance Officer of Top Frontier; Corporate Secretary of GSMI and other subsidiaries and affiliates of SMC; Director of various other local and offshore subsidiaries of SMC; and an Associate Professor of the University of the Philippines College of Law. Mr. Jacinto has served as a Director and Corporate Secretary of United Coconut Planters Bank (September 1998-February 2001), a Partner of the Villareal Law Offices (June 1985-May 1993) and an Associate of Sycip, Salazar, Feliciano & Hernandez Law Office (1981-1985).

Nelly F. Villafuerte, Filipino, born 1937, has served as a Director of the Company since December 1, 2011. She is also a Director of Top Frontier. She is a columnist for the Manila Bulletin and was a former Member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2005 until July 2011. She is an author of business handbooks on microfinance, credit card transactions, exporting and cyberspace and a four volume series on the laws on banking and financial intermediaries (Philippines). Atty. Villafuerte has served as Governor of the Board of Investments (1998-2005), Undersecretary for the International Sector (Trade Promotion and Marketing Group) of the DTI (July 1998-May 2000), and Undersecretary for the Regional Operations Group of the DTI (May 2000-2005).

Reynaldo G. David, Filipino, born 1942, has served as an Independent Director of the Company since May 12, 2009. He is the concurrent Chairman of the Audit Committee and Nomination Committee and likewise a member of the Compensation Committee. He has previously held among others, the following positions: President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank

of the Philippines. Other past positions include: Independent Director of ISM and ATOK, Chairman of LGU Guarantee Corporation, Vice Chairman, Chief Executive Officer and Executive Committee Chairman of Export and Industry Bank (September 1997-September 2004), Director and Chief Executive Officer of Unicorp Finance Limited and Consultant of PT United City Bank (concurrently held from 1993-1997), Director of Megalink Inc., Vice President and FX Manager of the Bank of Hawaii (April 1984-August 1986), various directorships and/or executive positions with The Pratt Group (September 1986-December 1992), President and Chief Operating Officer of Producers Bank of the Philippines (October 1982-November 1983), President and Chief Operation Officer of International Corporation Bank (March 1979-September 1982), and Vice President and Treasurer of Citibank N. A. (November 1964-February 1979).

Artemio V. Panganiban, Filipino, born 1936, has served as an Independent Director of the Company since October 21, 2010. He is a member of the Audit Committee. He holds the following positions, among others: Independent Director of MERALCO, Bank of the Philippine Islands, First Philippine Holdings Corp., Philippine Long Distance Telephone Co., Metro Pacific Investment Corp., Robinsons Land Corp., GMA Network, GMA Holdings, and Asian Terminals, Inc.; Non-executive Director of Jollibee Foods Corporation; columnist for the Philippine Daily Inquirer; and officer, adviser or consultant to several business, civic, educational and religious organizations. Atty. Panganiban was formerly the Chief Justice of the Philippine Supreme Court (2005-2006); Associate Justice of the Philippine Supreme Court (1995-2005); Chairperson of the Philippine House of Representatives Electoral Tribunal (2004-2005); Senior Partner of Panganiban Benitez Parlade Africa & Barinaga Law Office (1963-1995); President of Baron Travel Corporation (1967-1993); and professor at the Far Eastern University, Assumption Convent and San Sebastian College (1961-1970).

Margarito B. Teves, Filipino, born 1943, has served as an Independent Director of the Company since May 20, 2014. He is also an Independent Director of SMC, Alphaland Corporation and ATOK, and the Managing Director of The Wallace Business Forum and Chairman of Think Tank Inc. He was the Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously the President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005, among others. He was awarded as “2009 Finance Minister of Year/Asia” by the London-based The Banker Magazine.

Set out below are the name, position and year of appointment of the Executive Officers and senior management of the Company as of the date of this Prospectus.

Name	Position	Year Appointed
Ramon S. Ang	Chairman and Chief Executive Officer	2009
Lubin B. Nepomuceno	President	2013
Emmanuel E. Eraña	Senior Vice President and Chief Finance Officer	2009
Susan Y. Yu	Vice President, Procurement	2009
Ma. Rowena O. Cortez	Vice President, Supply	2009
Freddie P. Yumang	Vice President, Refinery	2009
Albertito S. Sarte	Treasurer and Vice President, Treasurers	2009
Archie B. Gupalor	Vice President, National Sales	2012
Efren P. Gabrillo	Controller and Vice President, Controllers	2010
Joel Angelo C. Cruz	Vice President, General Counsel & Corporate Secretary / Compliance Officer	2010
Rodulfo L. Tablante	Vice President, Operations	2013

Certain information on the business and working experiences of the Executive Officers is set out below.

Emmanuel E. Eraña, Filipino, born 1960, has served as the Senior Vice President and Chief Finance Officer of the Company since January 2009. He holds the following positions, among others: President and Chief Executive Officer of Petrogen, LLCDC and NVRC; President of PFI; Deputy Chairman of Ovincor; and Director of PFC, POGM, PFISB and POMSB. Mr. Eraña served the following positions in the

San Miguel Group: Vice President and Chief Information Officer (January 2008-December 2009), Executive Assistant to the Chief Financial Officer, Corporate Service Unit (December 2006-January 2008), Chief Finance Officer of SMFBIL/NFL Australia (May 2005-November 2006), Chief Finance Officer of SMPFC (July 2002-May 2005), and Finance Officer (January 2001-June 2002), Finance and Management Services Officer, San Miguel Food Group (2000-2001).

Susan Y. Yu, Filipino, born 1976, has served as the Vice President for Procurement of the Company since January 2009. She is also a Trustee of PFI, Director of Ovincor and PSTPL. Ms. Yu has served as the Treasurer of Petrogen, Assistant Vice President and Senior Corporate Procurement Manager of San Miguel Brewery Inc., Assistant Vice President and Senior Corporate Procurement Manager of SMC Corporate Procurement Unit (July 2003-February 2008), and Fuel Purchasing and Price Risk Management Manager of PAL (May 1997-June 2003).

Ma. Rowena O. Cortez, Filipino, born 1964, has served as the Vice President for Supply of the Company since September 2013, and concurrently the Director for PSTPL since June 2013. She is also a Director of PAHL, Robinson International Holdings Ltd., Mariveles Landco Corporation and Pandacan Depot Services Inc. The various positions she has held in the Company include Vice President for Supply and Operations (July 2010 to August 2013), Vice President for Supply (June 2009 to June 2010) and various supervisory and managerial positions in the Marketing/Sales and Supply and Operations Divisions. Ms. Cortez also held various positions at the Philippine National Oil Company-Energy Research and Development Center from 1986 to 1993.

Freddie P. Yumang, Filipino, born 1958, has served as the Vice President for Refinery of the Company since September 2009. He is also a Director of PPI, Mariveles Landco Corporation, Robinson International Holdings Ltd. and PAHL. He is the lead of the Company's RMP-2 project and has held various positions in the Company, including Operations Manager and Technical Services Manager, and various supervisory and managerial positions at the Limay Refinery. Mr. Yumang is currently a director of the National Association of Mapua Alumni and was formerly National Director of the Philippine Society for Mechanical Engineers (2006-2007).

Albertito S. Sarte, Filipino, born 1967, has served as the Vice President for Treasurers of the Company since August 2009, and Treasurer of the Company since August 2009. He is also the Treasurer of most of the Company's subsidiaries. Mr. Sarte has served as Assistant Vice President for SMC International Treasury (December 1999-June 2009), Senior Financial Analyst for SMC Funds Planning Department (1995 to November 1999), and as Budget Analyst for SMC Corporate Budget (1988).

Archie B. Gupalor, Filipino, born 1968, has served as the Vice President for National Sales of the Company since March 2012. He has been with the San Miguel group since 1991. Prior to his appointment in the Company, he held the position of Vice President and General Manager of San Miguel Integrated Sales of San Miguel Foods, Inc. since 2009.

Efren P. Gabrillo, Filipino, born 1955, has served as the Vice President for Controllers of the Company since July 2012. He is also a Director of PSTPL and the Controller of most of the Company's subsidiaries. The various positions he has held in the Company include Assistant Vice President for Controllers of the Company (June 2010-June 2012), Assistant Vice President for Internal Audit (September 2009-May 2010), and various supervisory and managerial positions in Accounting, Treasurers, Business Support and Services, and Materials and Services Procurement.

Joel Angelo C. Cruz, Filipino, born 1961, has served as the Vice President of the Office of the General Counsel and Corporate Secretary and Compliance Officer of the Company since March 2013 and the Corporate Secretary and Compliance Officer of the Company since April 2010. He holds the following positions, among others: Corporate Secretary and Compliance Officer of Petrogen, Corporate Secretary of LLCDC, NVRC, PMC, PFC and Petron Global Limited; Assistant Corporate Secretary of MNHPI; and Trustee of PFI. Atty. Cruz was formerly the Assistant Vice President of the Office of the General Counsel, Assistant Corporate Secretary and Legal Counsel of the Company, and Assistant Corporate Secretary of all the Company's subsidiaries.

Rodulfo L. Tablante, Filipino, born 1953, has served as the Vice President for Operations of the Company since November 2013. He was the Head of Corporate Technical and Engineering Services Group of the Company from 2009 to 2013. Mr. Tablante was College Instructor and Mechanical Engineering Reviewer in the Cebu Institute of Technology (1975-1978 and 1976-1977, respectively), Process Control Engineer, Operations Planning and Control Head and Plant Operation Superintendent of SMC Mandaue Brewery (1976-1979, 1979-1980 and 1980-1984, respectively), Engineering Manager and Project Manager of SMC Polo Brewery (1984-1989 and 1989-1992, respectively), Assistant Brewery Consultant, Assistant Vice President, Engineering Manager and Vice President and Engineering Manager of SMC – Corporate Technical Services (1992-2001, 2001-2004 and January 2005-2007, respectively). He was a consultant of SMC from 2007 until December 2009.

Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors and/or executive officers of the Company.

Involvement in Certain Legal Proceedings

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

Significant Employees

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

Committees of the Board

Pursuant to the Company's Revised Corporate Governance Manual, the Board created each of the following committees and appointed Board members thereto.

Audit Committee

The Audit Committee is responsible for the oversight of the Company's financial management functions. The Audit Committee reviews the Company's internal reports as well as other rules or regulations that may impact the Company's financial statements. The Audit Committee also reviews the Company's financial reports for compliance with internal financial management standards as well as applicable regulatory requirements and other relevant accounting standards. The Audit Committee is composed of five Directors, two of whom (including the committee's chairman) are required to be independent. All members of the Audit Committee are required to have adequate financial and accounting expertise. As of the date of this Prospectus, the chairman of the Audit Committee is Reynaldo G. David, and its members are Estelito P. Mendoza, Lubin B. Nepomuceno, Aurora T. Calderon and Artemio V. Panganiban. Ferdinand K. Constantino, a former Director, serves as an advisor to the Audit Committee.

Nomination Committee

The Nomination Committee is responsible for identifying and pre-screening individuals qualified to become members of the Company's Board. The Nomination Committee is composed of three Directors. As of the date of this Prospectus, the chairman of the Nomination Committee is Reynaldo G. David, and its members are Estelito P. Mendoza and Virgilio S. Jacinto.

Compensation Committee

The Compensation Committee is responsible for reviewing and modifying the salary structures of officers of the Company holding position of Vice President or higher. The Compensation Committee is composed of five Directors, one of whom is required to be independent. The Chairman and the President of the Company are also members but without voting rights. As of the date of this Prospectus, the chairman of the Compensation Committee is Ramon S. Ang, and its members are Lubin B. Nepomuceno, Virgilio S. Jacinto, Aurora T. Calderon and Reynaldo G. David. Ferdinand K. Constantino, a former Director, serves as an advisor to the Compensation Committee.

Executive Committee

The Executive Committee has been delegated the authority to exercise certain powers of the Board in the management of the business and affairs of the Company while the Board is not in session. As of the date of this Prospectus, the chairman of the Executive Committee is Ramon S. Ang, and its members are Lubin B. Nepomuceno and Aurora T. Calderon. Eric O. Recto and Virgilio S. Jacinto act as alternate members of the Executive Committee.

Governance Committee

The Governance Committee assists the Board in the development and implementation of the corporate governance policies, structures and systems of the Company, including the review of their adequacy and effectiveness. The Governance Committee also oversees the adoption and implementation of systems or mechanisms for the assessment and improvement of the performance of the Board, the directors and the board committees, and the evaluation of the compliance by the Company with the Revised Manual of Corporate Governance of the Company. The Governance Committee is composed of three Directors. As of the date of this Prospectus, the chairman of the Governance Committee is Margarito B. Teves, and its members are Virgilio S. Jacinto and Nelly F. Villafuerte.

Executive Compensation

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

Compensation of Executive Officers and Directors (In ₱ millions)				
Name	Principal Position	Year	Salary	Bonus
Ramon S. Ang	Chairman	2014 (estimated) 2013 2012	83.03 80.71 76.01	33.56 6.13 39.22
Eric O. Recto	Vice Chairman*			
Lubin B. Nepomuceno	President			
Emmanuel E. Erana	Senior Vice President and Chief Finance Officer			
Freddie P. Yumang	Vice President – Refinery			
All other officers and Directors as a group unnamed		2014 (estimated) 2013 2012	55.27 48.50 38.66	16.61 6.13 18.81

*Eric O. Recto was Vice Chairman of the Company until May 19, 2014.

Standard Arrangements

The Company's Executive Officers are also regular employees of the Company and are similarly remunerated with a compensation package comprising of 12 months base pay. They also receive whatever gratuity pay the Board extends to the managerial, supervisory and technical employees of the Company.

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

Other Arrangements

There are no other arrangements for which the Directors are compensated by the Company for services other than those provided as a Director.

Employment Contract

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

Warrants or Options Outstanding

There are no warrants or options held by Directors or Executive Officers.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

The major stockholders of the Company as of the date of this Prospectus are as follows:

• SEA Refinery Corporation	-	50.10%
• San Miguel Corporation	-	18.16%
• Petron Corporation Employees' Retirement Plan	-	5.72%

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

Recent Developments

The Board of Trustees of PCERP, a shareholder of the Company, sold to the public its holdings of 380,000,000 common shares of the Company representing 4.05% of the Company's total outstanding common shares through the facilities of the PSE, pursuant to a Placement Agreement dated August 18, 2014. The sale brings down PCERP's ownership of the Company's total outstanding common shares from 9.77% to 5.72%. Correspondingly, the percentage of common shares held by the public rose from 21.97% to 26.02%.

Petron Corporation Employees' Retirement Plan

In July 2010, PCERP acquired from SEA BV 24.28% of the common shares in the Company. In January 2012, PCERP sold 7.4% of the Company's outstanding common shares to the public. In December 2012, PCERP sold 2.08% of the Company's outstanding common shares to Credit Suisse (Singapore) Limited. In March 2014, PCERP sold an additional 5.02% of the Company's common shares to the public. In August 2014, PCERP further sold an additional 4.05% of the Company's total outstanding shares to the public.

A significant portion of the P 20.8 billion advance from the Company to PCERP was used to fund the purchase of the common shares of the Company in July 2010. The advance bears interest at market rates.

The proceeds of the sales of the Company's common shares by PCERP were used to partially repay advances made by the Company in 2010.

San Miguel Corporation

SMC is a major stockholder of the Company. The Company has supply agreements with various SMC subsidiaries, under which the Company supplies the bunker fuel oil, diesel fuel, gasoline and lubricant requirements of selected SMC plants and subsidiaries. Generally, the pricing formulae under these agreements are based on MOPS. The Company also currently leases office space from an SMC subsidiary pursuant to a lease agreement that was entered into on an arm's length basis.

New Ventures Realty Corporation

NVRC is a subsidiary of the Company 40%-owned by the Company and 60%-owned by a trustee bank of PCERP. The Company leases from NVRC certain parcels of land where the Limay Refinery and its service station sites, terminals and bulk plants are located. NVRC is also the holder of the lease over the site of the Limay Refinery of which the PNOC is the lessor.

Apart from the foregoing, there are no related party transactions other than as disclosed in the financial statements.

MARKET PRICE OF AND DIVIDENDS ON THE ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

As of August 31, 2014, the Company had 9,375,104,497 common shares and 100,000,000 preferred shares issued and outstanding. The table below sets forth the Company's top 20 holders of common shares as of August 31, 2014:

	Stockholder Name	No. of shares	% to Total
1	SEA Refinery Corporation	4,696,885,564	50.10%
2	San Miguel Corporation	1,702,870,560	18.16%
3	PCD Nominee Corp. (Filipino)	1,439,849,398	15.36%
4	Petron Corporation Employees' Retirement Plan	536,156,097	5.72%
5	PCD Nominee Corp. (Non-Filipino)	530,756,002	5.66%
6	Ansaldo Godinez & Co. Inc. FAO Mark V. Pangilinan	8,000,000	0.09%
7	A. Soriano Corporation	7,760,000	0.08%
8	Ernesto Chua Chiaco &/or Margaret Sy Chua Chiaco	6,000,000	0.06%
9	Margaret S. Chua Chiaco	3,900,000	0.04%
10	Raul Tomas Concepcion	3,504,000	0.04%
11	Genevieve S. Chua Chiaco	2,735,000	0.03%
12	Ernesson S. Chua Chiaco	2,732,000	0.03%
13	Ching Hai Go &/or Martina Go	2,500,000	0.03%
14	Genevieve S. Chua Chiaco	2,490,000	0.03%
15	Benedict Chua Chiaco	2,310,000	0.02%
16	Shahrad Rahmanifard	2,000,000	0.02%
17	Anthony Chua Chiaco	1,953,000	0.02%
18	Kristine Chua Chiaco	1,901,000	0.02%
19	Ernesson S. Chua Chiaco	1,450,000	0.02%
20	Edwin Francis Lim Tan	1,100,000	0.01%
		8,956,852,621	95.54%

As at August 31, 2014, the Issuer had 151,663 shareholders of its common shares. The foreign ownership level of total outstanding voting shares in the Issuer was 5.72%.

The table below sets forth the Company's top 20 holders of preferred shares as of August 31, 2014:

	Stockholder Name	No. of shares	% to Total
1	PCD Nominee Corp. (Filipino)	89,704,100	89.70%
2	San Miguel Corporation Retirement Plan - FIP	3,177,080	3.18%
3	San Miguel Brewery Inc. Retirement Plan	2,035,000	2.04%
4	San Miguel Corporation Retirement Plan - STP	580,910	0.58%
5	AFP Retirement and Separation Benefits System	500,000	0.50%
6	San Miguel Yamamura Packaging Corp. Retirement Plan	455,000	0.46%
7	San Miguel Foods Inc. Retirement Plan	455,000	0.46%
8	First Life Financial Co., Inc.	340,000	0.34%
9	PCD Nominee Corp. (Non-Filipino)	323,410	0.32%
10	Dominic Lim Sytin &/or Ann Marietta Lim Sytin	300,000	0.30%
11	The First Resources Management & Securities Corporation	275,000	0.28%
12	HSY Realty & Development Corporation	150,000	0.15%
13	Manila Bankers Life Insurance Corporation	122,500	0.12%
14	Securities Investors Protection Fund, Inc.	110,000	0.11%
15	Television International Corp.	100,000	0.10%
16	Knights of Columbus Fr. George J. Willmann Charities, Inc.	60,000	0.06%
17	Safeway Customs Brokerage, Inc.	60,000	0.06%
18	Carmencita R. Gutierrez &/or Girme L. Gutierrez	51,000	0.05%
19	Armando Hun &/or Mary Kathlyn Khong Hun	50,000	0.05%
20	Empire Insurance Company	50,000	0.05%
		98,899,000	98.90%

As at August 31, 2014, the Issuer had 123 shareholders of its Outstanding Preferred Shares. The foreign ownership level of total Outstanding Preferred Shares of the Issuer was 0.32%.

Dividends and Dividend Policy

It is the policy of the Company to declare as dividends out of its unrestricted retained earnings at least 25% of its unappropriated net income (after taxes) for the prior fiscal year, payable either in cash, distribution of property, or by issuance of new shares of stock. The Board shall determine, by resolution, the exact amount, the date and the shareholders entitled thereto.

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

In 2014, the Board approved on March 24, 2014 a cash dividend of ₱0.05 per share to common shareholders as of the April 8, 2014 record date with a pay-out date of April 23, 2014. A cash dividend of ₱2.382 per Outstanding Preferred Share was declared on May 6, 2014 with a record date of May 21, 2014 and a payment date of June 5, 2014. On August 6, 2014, another cash dividend of ₱2.382 per Outstanding Preferred Share was declared with a record date of August 22, 2014 and a payment date of September 5, 2014.

In 2013, the Board approved on March 18 a cash dividend of ₱0.05 per share to common shareholders as of the April 12, 2013 record date. Payment of the dividend was made on May 8, 2013. A cash dividend of ₱2.382 per Outstanding Preferred Share was also declared on March 18, 2013 for the second and third quarters of 2013 based on the following record and payment dates: May 10, 2013 and August 8, 2013 record dates and June 5, 2013 and September 5, 2013 payment dates.

The Board further approved on August 8, 2013 a cash dividend of ₱2.382 per Outstanding Preferred Share for the fourth quarter of 2013 and the first quarter of 2014 with following record and payment dates: November 11, 2013 and February 7, 2014 record dates and December 5, 2013 and March 5, 2014 payment dates.

In 2012, the Board approved on March 7 a cash dividend of ₱0.10 per share to common shareholders as of the April 2, 2012 record date. The dividends were paid on April 24, 2012. A cash dividend of ₱2.382 per Outstanding Preferred Share was also declared on March 7, 2012 for the second and third quarters of 2012 based on the following record and payment dates: May 18, 2012 and August 16, 2012 record dates and June 5, 2012 and September 5, 2012 payment dates. On August 9, 2012, the Board also approved a cash dividend of ₱2.382 per Outstanding Preferred Share for the fourth quarter of 2012 and the first quarter of 2013 with following record and payment dates: November 16, 2012 and February 20, 2013 record dates and December 5, 2012 and March 5, 2013 payment dates.

Under the terms and conditions of the Capital Securities or the undated subordinated capital securities issued by the Company on February 11 and March 6, 2013, more particularly described below in *“Recent Sales of Unregistered or Exempt Securities Including Recent Issuances of Securities Constituting an Exempt Transaction - US\$750 Million Undated Subordinated Capital Securities,”* the Company cannot declare dividends on any Junior Securities, which include the common shares of the Company, or (except on a *pro rata* basis) on any Parity Securities which include the Outstanding Preferred Shares of the Company, in case the payment of all distributions scheduled to be made on the Capital Securities is not made in full by reason of the Company deferring such distributions in accordance with the terms of the Capital Securities.

Market Price of the Issuer’s Common Equity

The Company’s common and preferred shares are principally traded at the PSE.

The high and low prices of the common shares for each quarter of the last two fiscal years and the first half of 2014 are indicated in the table below:

(in ₱)	2014		2013		2012	
	Highest Close	Lowest Close	Highest Close	Lowest Close	Highest Close	Lowest Close
1st Quarter	14.30	11.70	14.40	10.38	13.40	9.74
2nd Quarter	12.82	11.78	16.20	12.62	10.80	10.00
3rd Quarter	NA	NA	14.82	11.70	10.60	9.80
4th Quarter	NA	NA	14.18	12.20	11.04	10.34

The high and low prices of the preferred shares for each quarter of the last two fiscal years and the first half of 2014 are indicated in the table below:

(in ₱)	2014		2013		2012	
	Highest Close	Lowest Close	Highest Close	Lowest Close	Highest Close	Lowest Close
1st Quarter	109.00	105.60	110.40	107.10	116.70	112.70
2nd Quarter	107.00	101.50	115.00	109.40	116.00	110.00
3rd Quarter	NA	NA	112.00	108.70	111.30	106.10
4th Quarter	NA	NA	111.40	108.00	110.00	105.50

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

Under the Code and the Amended Implementing Rules and Regulations of the Securities Regulation Code (the "Amended SRC Rules"), securities are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are approved for registration by the SEC or are otherwise exempt securities under Section 9 of the Code or sold pursuant to an exempt transaction under Section 10 of the Code.

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

The securities discussed below were not registered with the SEC under the Code. Any future offer or sale thereof is subject to registration requirements under the Code, unless such offer or sale qualifies as an exempt transaction.

Fixed Rate Corporate Notes

Fixed Rate Corporate Notes in 2009

- 1) On June 5, 2009, the Company issued five (5)- and seven (7)-year Fixed Rate Corporate Notes totalling ₱10 billion, consisting of:
 - a) Series 2A Notes amounting to ₱5.2 billion and having a maturity of five (5) years from the Listing date; and

- b) Series 2B Notes amounting to ₱4.8 billion and having a maturity of seven (7) years from the Listing date.
- 2) The arrangers were BPI Capital, the Development Bank of the Philippines, The Hongkong and Shanghai Banking Corporation Limited and ING Bank NV - Manila Branch. The notes were sold to primary institutional lenders not exceeding 19.
- 3) The offer price was at 100%.
- 4) As the notes described herein were offered to not more than 19 non-qualified buyers and/or to any number of qualified buyers in the Philippines, such notes were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC.

Fixed Rate Corporate Notes in 2011

- 1) On October 25, 2011, the Company issued Fixed Rate Corporate Notes totaling ₱3.6 billion, broken down into the following series:
 - a) Series 2A Notes amounting to ₱0.69 billion and having a maturity of seven (7) years from the Listing Date; and
 - b) Series 2B Notes amounting to ₱2.91 billion and having a maturity of 10 years from the Listing Date.
- 2) The arranger was ING Bank NV Manila Branch. The notes were sold to primary institutional lenders not exceeding 19.
- 3) The offer price was at 100%.
- 4) As the notes described herein were offered to not more than 19 non-qualified buyers and to any number of qualified buyers in the Philippines, such notes were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC.

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

- 1) On November 10, 2010, the Company issued ₱20 Billion 7.0% Peso-Denominated Notes Due 2017 Payable in U.S. Dollars.
- 2) The arrangers were Credit Suisse, Deutsche Bank, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank. The notes were sold to various investors.
- 3) The offer price was at 100%.
- 4) As the notes described herein were offered to not more than 19 non-qualified buyers and to any number of qualified buyers in the Philippines, such notes were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC. But, in compliance with the requirements of the Amended SRC Rules, a notice of exemption for the transaction was filed on November 22, 2010. The subject notes were listed on the Singapore Exchange on November 11, 2010.

US\$750 Million Undated Subordinated Capital Securities

- 1) On February 6, 2013, the Company issued US\$500 million undated subordinated capital securities (the "February 6 Issuance"). On March 11, 2013, the Company further issued US\$250 million undated subordinated capital securities, which were consolidated and formed a single series with, the February 6 Issuance (the "March 11 Issuance").
- 2) The joint lead managers were Deutsche Bank AG, Singapore Branch, Standard Chartered Bank, The Hongkong and Shanghai Banking Corporation Limited, and UBS AG, Hong Kong Branch.
- 3) The offer price for the February 6 Issuance was at 100% and for the March 11 Issuance was at 104.25% plus an amount corresponding to accrued distributions on the capital securities from, and including, February 6, 2013 to, but excluding, March 11, 2013.
- 4) As the capital securities described herein were offered to qualified buyers in the Philippines, such securities were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC. In compliance with the requirements of the Amended SRC Rules, however, notices of exemption for the transactions

were filed on February 12, 2013 for the February 6 Issuance and on March 18, 2013 for the March 11 Issuance. The capital securities were listed at the Stock Exchange of Hong Kong Limited on February 7, 2013 in relation to the February 6 Issuance and on March 12, 2013 in connection with the March 11 Issuance.

Apart from the foregoing, there are no recent sales of unregistered or exempt securities, including recent issuances of securities constituting an exempt transaction. The Company has no registered debt securities.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Record and Beneficial Owners

As at August 31, 2014, the following are the owners of the Issuer's common stock in excess of 5% of total outstanding shares:

Title of Class	Name & address of record owner & relationship with Company	Name of beneficial owner & relationship with record owner	Citizenship	No. of shares held	Percentage of Ownership
Common	SEA Refinery Corporation SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City Shareholder	SEA Refinery Corporation	Filipino	4,696,885,564	50.10%
Common	San Miguel Corporation SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City Shareholder	San Miguel Corporation	Filipino	1,702,870,560	18.16%
Common	PCD Nominee Corporation (Filipino) 37 th Floor Tower 1 The Enterprise Center 6766 Ayala Avenue corner Paseo de Roxas, Makati City Shareholder	PCD Nominee Corporation	Filipino	1,439,849,398	15.36%
Common	Petron Corporation Employees' Retirement Plan SMC Head	Petron Corporation Employees' Retirement Plan	Filipino	536,156,097	5.72%

	Office Complex 40 San Miguel Avenue, Mandaluyong City Shareholder				
Common	PCD Nominee Corporation (Non-Filipino) 37 th Floor Tower 1 The Enterprise Center 6766 Ayala Avenue corner Paseo de Roxas, Makati City Shareholder	PCD Nominee Corporation	Filipino	530,756,002	5.66%

The Board of Trustees of PCERP, a shareholder of the Company, sold to the public its holdings of 380,000,000 common shares of the Company representing 4.05% of the Company's total outstanding common shares through the facilities of the PSE, pursuant to a Placement Agreement dated August 18, 2014. The sale brought down PCERP's ownership of the Company's total outstanding common shares from 9.77% to 5.72%. Correspondingly, the percentage of common shares held by the public rose from 21.97% to 26.02%.

Security Ownership of Management

As at August 31, 2014, the following are the number of shares owned of record by the Issuer's directors and key executive officers:

Title of Class	Name of Beneficial Owner	Citizenship	Amount and Nature of Beneficial Ownership (d) Direct; (i) Indirect	Percent of Class
Directors				
Common Stock	Ramon S. Ang	Filipino	1,000 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Lubin B. Nepomuceno	Filipino	5,000 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Eric O. Recto	Filipino	1 (d)	0.00%
Preferred Stock			300,000 (i)	0.3%
Common Stock	Eduardo M. Cojuangco, Jr.	Filipino	1,000 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Estelito P. Mendoza	Filipino	1,000 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Jose P. De Jesus	Filipino	500 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Ron W. Haddock	American	1 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Aurora T. Calderon	Filipino	1,000 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Mirzan Mahathir	Malaysian	1,000 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Ma. Romela M. Bengzon	Filipino	1,000 (d)	0.00%

Preferred Stock			-	NA
Common Stock	Virgilio S. Jacinto	Filipino	1,000 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Nelly Favis-Villafuerte	Filipino	1,000 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Reynaldo G. David	Filipino	1,000 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Artemio V. Panganiban	Filipino	1,000 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Margarito B. Teves	Filipino	500 (d)	0.00%
Preferred Stock			125,000 (i)	0.12%
Executive Officers				
Title of Class	Name of Beneficial Owner	Citizenship	Amount and Nature of Beneficial Ownership (d) Direct; (i) Indirect	Percent of Class
Common Stock	Emmanuel E. Erana	Filipino	-	NA
Preferred Stock			20,000 (i)	0.02%
Common Stock	Freddie P. Yumang	Filipino	42,500 (d)	0.0005%
Preferred Stock			10,000 (i)	0.01%
Common Stock	Ma. Rowena O. Cortez	Filipino	8,580 (d)	0.00%
Preferred Stock			1,000 (i)	0.001%
Common Stock	Susan Y. Yu	Filipino	-	NA
Preferred Stock			53,000 (i)	0.05%
Common Stock	Archie B. Gupalor	Filipino	3,000 (d)	0.00%
Preferred Stock			-	NA
Common Stock	Albertito S. Sarte	Filipino	-	NA
Preferred Stock			20,000 (i)	0.02%
Common Stock	Efren P. Gabrillo	Filipino	8,001 (d)	0.00%
Preferred Stock			1,500 (i)	0.00%
Common Stock	Rodulfo L. Tablante	Filipino	-	NA
Preferred Stock			-	NA
Common Stock	Joel Angelo C. Cruz	Filipino	-	NA
Preferred Stock			-	NA
Directors and Executive Officers as a group		Common	78,083	0.0008%
		Preferred	530,500	0.5305%

Voting Trust Holders of 5% or More

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

Change in Control

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

WARRANTS AND OPTIONS

As of the date of this Prospectus, there are no existing or planned stock options / stock warrant offerings.

INDUSTRY OVERVIEW

The information and data contained in this section has been taken from sources in the public domain, including the BP Statistical Review of World Energy, International Energy Agency, International Monetary Fund, Malaysia Energy Information Hub, Philippine Department of Energy and the U.S. Energy Information Administration. The Company does not have any knowledge that the information herein is inaccurate in any material respect. Neither the Company, the Joint Lead Managers nor any of their respective affiliates or advisors has independently verified the information included in this section

GLOBAL AND REGIONAL OIL MARKET

According to the International Energy Agency (“IEA”), global oil demand is forecasted to grow by 1.0 million barrels per day (“mbd”) to reach 92.7 mbd in 2014 and by another 1.3 mbd to reach 94.0 mbd in 2015. Global oil demand grew by 1.1 mbd to reach 91.6 mbd in 2013. This represents an annual change of 1.2%, 1.1%, and 1.4% for 2013, 2014, and 2015, respectively. A downward revision in forecasts of about 130 thousand barrels per day (“kbd”) for 2014 has been attributed to lower-than-expected 2Q14 deliveries and a weaker GDP outlook, as indicated in the International Monetary Fund (“IMF”) forecast as of July 2014.

Growth is expected to be primarily driven by emerging markets and developing economies (non-Organization for Economic Co-operation and Development (“non-OECD”) countries) such as China and India. Non-OECD demand is forecasted to grow to 46.9 mbd in 2014, an increase of 2.7% year on year (“Y-Y”). The increase in demand is primarily due to improvements in the demand trend of China. Given an expected improvement in macroeconomic conditions, India, Brazil, and Saudi Arabia are also likely to contribute significantly towards demand growth.

The divide in growth outlook between emerging market and developing economies, compared with advanced economies, is also reflected more broadly in economic forecasts. The IMF projects real GDP growth in 2014 of 2.8% and 1.2% for the United States and the Eurozone, compared with 7.6% and 5.4% for China and India, respectively.

Global Oil Demand (2013 – 2015E) Million barrels per day, except percentages

	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	4Q15	2015
Americas	30.1	30.4	30.9	31.1	30.6	30.4	30.5	31.1	31.4	30.9	30.6	30.8	31.3	31.5	31.0
Asia-Pacific	30.6	29.7	29.7	30.9	30.2	31.1	30.1	30.3	31.4	30.7	31.8	30.8	30.9	32.1	31.4
Europe	13.8	14.5	14.6	14.2	14.3	13.7	14.2	14.6	14.4	14.2	13.8	14.3	14.5	14.2	14.2
Middle East	7.5	7.9	8.4	7.7	7.9	7.8	8.2	8.6	7.9	8.1	8.0	8.4	8.9	8.2	8.4
FSU	4.4	4.6	4.9	4.9	4.7	4.6	4.8	4.9	4.9	4.8	4.6	4.8	5.0	5.0	4.8
Africa	3.9	3.9	3.7	3.8	3.8	3.9	4.0	3.9	4.0	4.0	4.1	4.2	4.1	4.2	4.2
Global Total	90.4	91.0	92.3	92.7	91.6	91.5	91.7	93.4	94.0	92.7	92.9	93.1	94.7	95.2	94.0
Y-Y Chg (%)	1.1	1.4	1.5	0.8	1.2	1.2	0.8	1.2	1.5	1.1	1.5	1.5	1.4	1.3	1.4
Y-Y Chg	0.9	1.3	1.3	0.7	1.1	1.0	0.7	1.1	1.4	1.0	1.4	1.4	1.3	1.2	1.3

Note: Figures from 2Q14 onwards are estimates

Source: Oil Market Report, International Energy Agency (August 2014)

Asian oil demand has continued to drive growth for 2014YTD. Despite signs of its economy slowing down, China has been a key driver, although other Asian countries have also contributed towards growth. Asia-Pacific is expected to account for approximately 33% of expected global oil demand in 2014, and the United States is expected to account for 30.9 mbd or approximately 33% of expected demand.

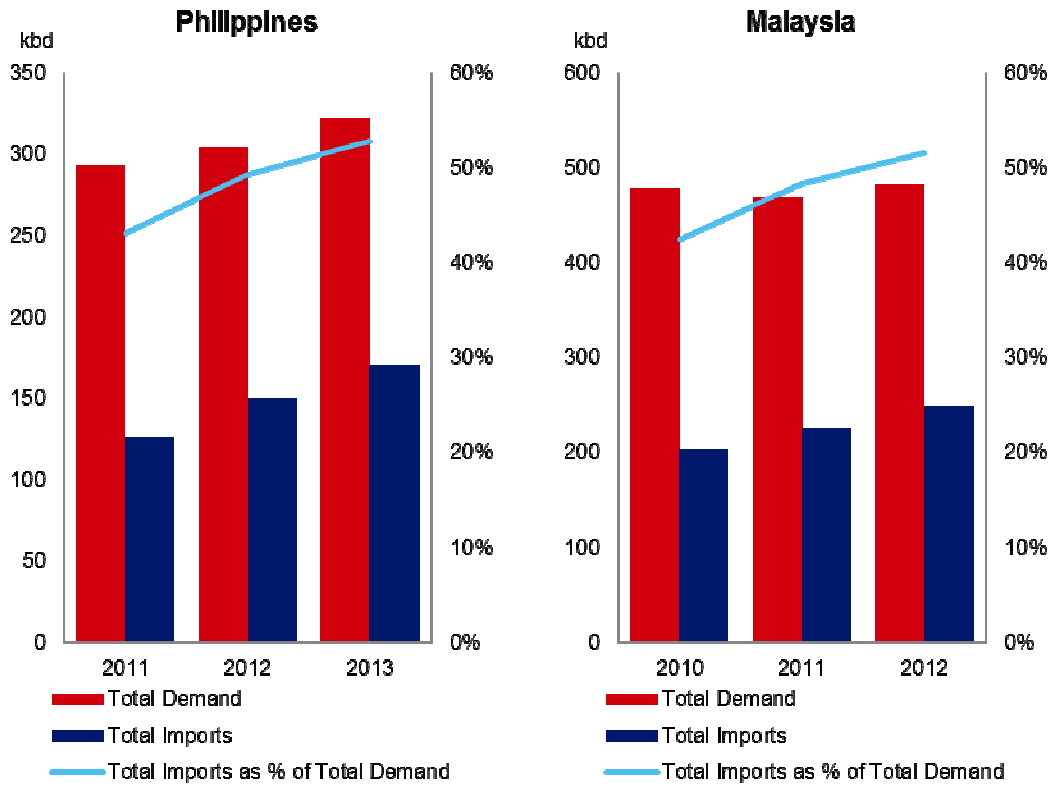
The IEA expects Asia to continue facing an overall supply deficit for refined products, despite new refining capacity being added, particularly in China. Asian demand growth has been largely driven by light and middle distillates, such as gasoil, gasoline and naphtha. Naphtha is still a key petrochemical feedstock in Asia, and the rapid growth in new ethylene capacity has firmly supported naphtha demand in the region. LPG and kerosene / jet fuel have also posted healthy demand, while fuel oil demand has declined, largely due to substitution with coal and natural gas in the power sector.

According to IEA, global refining activity saw diverging trends in June 2014, with a counter-seasonal drop in OECD throughput against record-high runs in certain key non-OECD countries. OECD refinery intake fell 1.9 mbd Y-Y, while throughput in China, Brazil, Russia, and Saudi Arabia posted record highs. Global refinery throughput is estimated at 76.5 mbd in 2Q14, up 1.3 mbd Y-Y. Throughput is expected to rise seasonally through August and up a moderate 0.6 mbd Y-Y owing in part to a high baseline last year.

THE PHILIPPINE AND MALAYSIAN OIL MARKETS

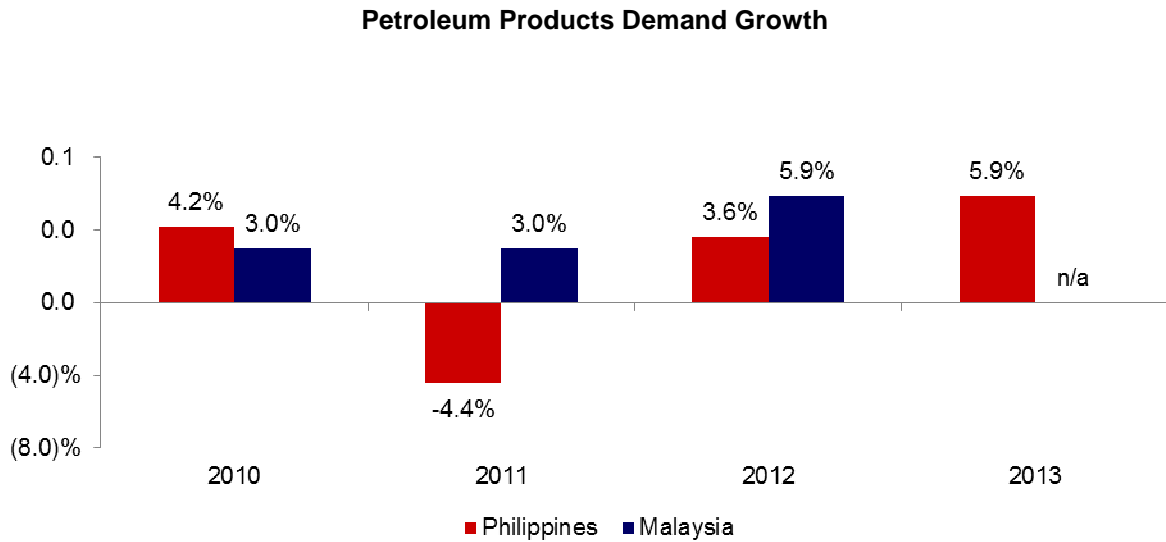
The Philippines and Malaysia are major importers of finished petroleum products, importing over 50% of their total consumption requirements. The charts below show demand, imports, and imports as a percentage of demand, for the periods indicated.

Gross Imports as a Percentage of Total Petroleum Products Consumption in the Philippines and Malaysia



Source: Philippine Department of Energy, Malaysia Energy Information Hub

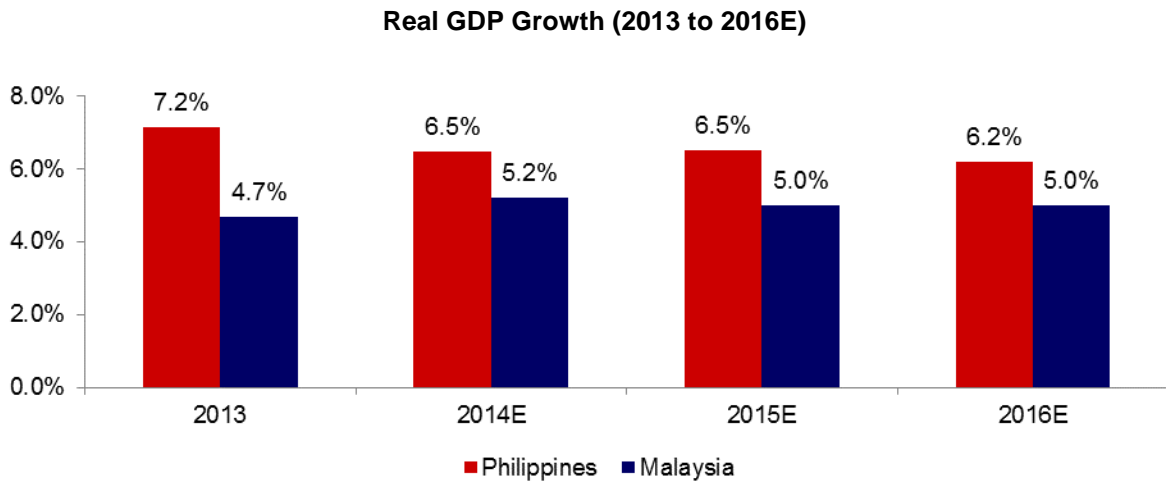
The petroleum products demand in the Philippines and Malaysia have generally experienced growth, as shown in the chart below.



Source: Philippine Department of Energy, JBC Energy

Real GDP growth

According to the IMF, the Philippine and Malaysian economies are expected to exhibit stable real GDP growth at annual rates of 5% to 6%, as indicated in the chart below. This favourable economic backdrop is expected to contribute to energy and petroleum products demand growth in these countries.



Source: International Monetary Fund as of April 2014

Philippine Oil Market

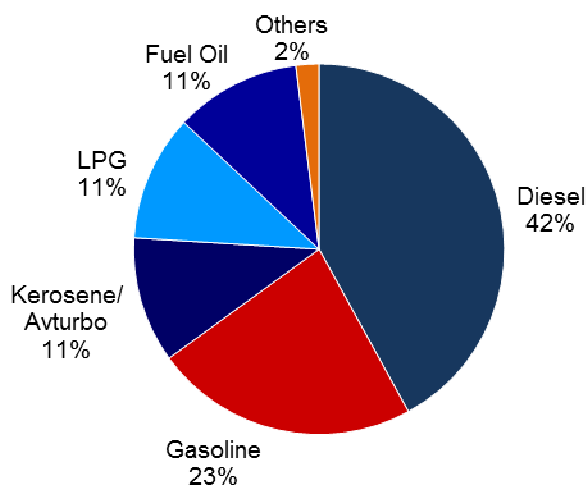
Based on data from the Philippine DOE, the country's crude oil imports reached 56.3 million barrels ("mbl") in 2013, a decrease of 11.6% from 63.7 mbl in 2012. The decline in crude imports in 2013 was due to lower average crude runs resulting from extended maintenance shutdowns of the refineries. Historically, the majority of crude oil imports to the Philippines have been from the Middle East. In 2013, approximately 76% of crude oil imports were from the Middle East. Saudi Arabia accounted for 41.7% and the United Arab Emirates 17.2% of the total, respectively. Russia was the next largest source of crude oil for the Philippines, accounting for 18.2% of total imports in 2013.

The country's current maximum working crude distillation capacity is 284 thousand barrels per stream day, based on data from the DOE.

Due to the shortfall in domestic supply, the Philippines is an importer of finished products. Product imports during 2013 were at 62.1 mbl, an increase of 13.4% from 54.8 mbl in 2012. Imports of diesel were up 5.3%, gasoline by 17.4%, Avturbo by 28.7%, LPG by 9.1%, and fuel oil by 89.1%.

Petroleum products demand grew by 5.9% to 117.5 mbl in 2013. The chart below shows the demand mix for 2013.

Philippine Demand Breakdown by Product (2013)



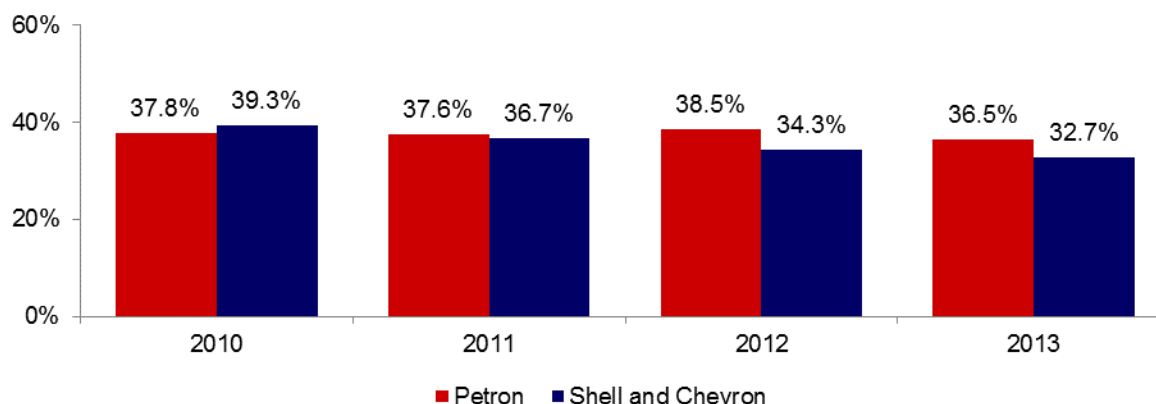
Source: Philippine Department of Energy

Petroleum product exports from the Philippines have not been historically significant. In 2013, exports fell by 8.3% to 8.6 mbl. The largest components of the export mix for 2013 were condensate (44.3%), naphtha (26.2%), fuel oil (18.3%), and mixed xylene (5.2%). Oil refiners accounted for 55.7% of the total export mix while exports by Shell Philippines Exploration B.V. and LPG exports by Liquigaz accounted for the remainder, according to the DOE.

The Company has historically maintained a leading market share in the Philippine oil industry, with an overall market share of 36.5% in 2013 in terms of sales volume per Company estimates based on

Company information and data provided by the DOE. The chart below provides market share data for the Philippine oil industry for the periods indicated.

Philippine Petroleum Product Sales Market Share (2010 - 2013)



Source: Philippine Department of Energy

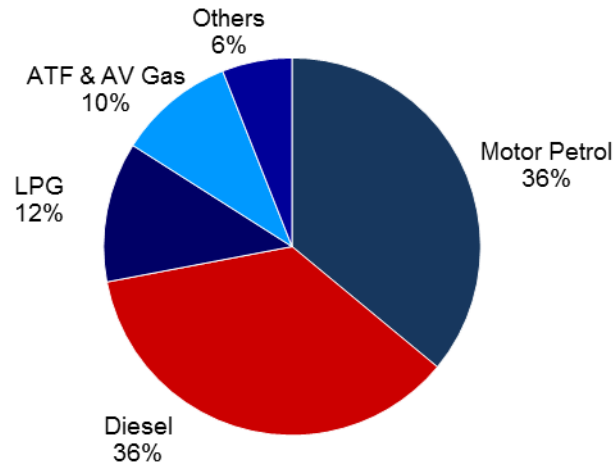
Malaysia Oil Market

Malaysia is one of the largest producers of oil and gas in Southeast Asia. According to the 2014 BP Statistical Review of World Energy, Malaysia had proven oil reserves of 3.7 billion barrels and proven gas reserves of 1.1 trillion cubic metres in 2013. The country's natural gas production grew by 3.9%, to 69.1 billion cubic metres in 2013. The majority of Malaysia's crude oil comes from offshore fields, predominantly in the Malaya basin. Malaysia's benchmark crude oil is the Tapis Blend, which is categorized as light and sweet.

The oil and gas and energy sectors are the largest contributors to Malaysia's national GDP. Petronas is Malaysia's integrated national oil and gas company and is the exclusive holder of ownership rights to all oil and gas exploration and production projects. The company is also responsible for all licensing procedures in Malaysia.

According to the Malaysia Energy Information Hub, the final consumption of petroleum products in Malaysia grew by 3.0%, to 24,634 thousand tons of oil equivalent ("ktoe") in 2012. Motor petrol accounted for the largest consumption at 36.2%, followed by diesel at 35.5%, LPG at 11.7%, and ATF & AV gas at 10.2%. In terms of a regional breakdown, Peninsular Malaysia accounted for nearly 80% of petroleum product sales, with Sabah and Sarawak accounting for the remaining 20% in 2012, according to the 2012 National Energy Balance by the Suruhanjaya Tenaga (Energy Commission of Malaysia).

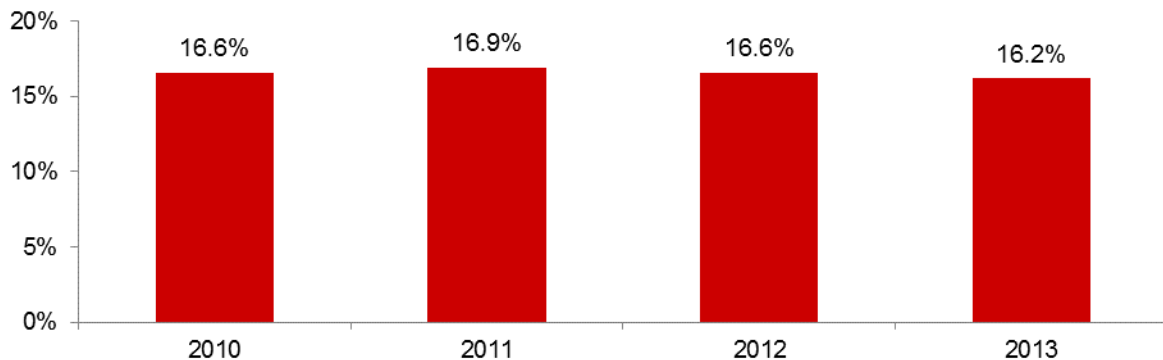
Breakdown of Consumption of Petroleum Products in Malaysia (2012)



Source: Malaysia Energy Information Hub

The Malaysian oil industry is dominated by Shell and Petronas, followed by the Company. In the retail segment, the Company had a market share of 16.4% for the six months ended June 30, 2014 per Company estimates based on Company information and data from Metrix Research. The following table shows the historical retail market share for the Company's Malaysian operations, which the Company acquired in March 2012.

Petron Malaysia / ExxonMobil Malaysia Historical Retail Market Share (2010 - 2013)



Source: Metrix Research

Over the last decade, Malaysia has been a net importer of gasoline, with imports mainly from Singapore. It has also been a net importer of diesel and fuel oil. Conversely, Malaysia has been a net exporter of LPG, naphtha and jet fuel/kerosene. Exports have predominantly been to countries in Asia, particularly India, Japan, Singapore, South Korea and Thailand.

GLOBAL PETROCHEMICAL MARKET

Petrochemical Products

Petrochemicals are chemical products derived from petroleum or other hydrocarbons. Primary petrochemicals include olefins and aromatics. Olefins are unsaturated molecules of carbon and hydrogen that appear as short chains of between two and four carbons in length, while aromatics contain a six carbon ring structure. Olefins and aromatics form the basis of a range of materials, including adhesives and solvents, and olefins form the basis for polymers, which are used, among other things, in plastics, fibers, resins and lubricants. Descriptions of certain petrochemicals are set forth below, of which propylene is an olefin and benzene, toluene and xylene are aromatics.

- (1) Propylene is the feedstock for the production of polypropylene, which is used to manufacture items such as food packaging plastics, car bumpers, computer housings, appliance parts and fibers.
- (2) Benzene is used to produce numerous compounds, such as styrene, phenol, cyclohexane, alkylbenzenes, and chlorobenzenes, which are used to produce plastics, pharmaceuticals, pesticides and other chemicals. It is also used as a solvent for paints and natural rubber.
- (3) Toluene is used as a solvent in paints, inks, adhesives and cleaning agents, and in chemical extractions. It is also used in the chemical synthesis of benzene, urethane foams and other organic chemicals and in the production of pharmaceuticals, dyes, and cosmetic nail products.
- (4) Xylene is used to make polyester fibers, packaging materials, bottles and films.

Refining – Petrochemical Integration

Key factors affecting petrochemical companies include access to feedstock, the cost of feedstock, proximity to demand centers, technological advances and access to talent. In particular, the integration of petrochemical operations with refineries has been a way for companies to secure access to feedstock and also to capture more value from a refinery's product streams. This gives some flexibility in whether to maximize production of petroleum products or petrochemicals, depending on market requirements and the refinery's configuration. In addition, the integration of petrochemical facilities with refineries can provide economies of scale from the use of shared facilities and infrastructure, other overhead costs, as well as a sales channel for the products, which are used as feedstocks for petrochemical processes.

Petrochemical Outlook

The petrochemicals industry has historically been cyclical and has usually coincided with the business cycles of global and regional economies. Changes in supply and demand and resulting utilization levels are key factors that affect profitability. Periods of low industry profitability typically alternate with high profitability and result in periods of over- and under-investment. The long lead times for the construction of new facilities can result in capacity additions coinciding with, and subsequently exacerbating, weakening market conditions.

Petrochemicals demand from Asian countries is expected to be a significant contributor to overall global growth over the next few years. China and India are expected to be among the key countries contributing to this growth, driven by the manufacturing sector and the broader economy. In particular, the per capita consumption of products such as polyethylene and polypropylene in these countries is considerably lower than for instance in Europe. At the same time, there have been new capacity additions in Asia-Pacific, with further facilities being built and planned. Nevertheless, in the medium term, countries in the region are generally expected to remain net importers of feedstock and petrochemical products.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Prospective investors should read the following discussion and analysis of the Company's financial position and results of operations together with the audited consolidated financial statements of the Company as at December 31, 2012 and 2013 and for the years ended December 31, 2011, 2012 and 2013, the interim consolidated financial statements of the Company as at June 30, 2014 and for the six-month periods ended June 30, 2013 and 2014, and the notes thereto included elsewhere in this Prospectus.

Overview

The Company refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, the Company is the largest integrated oil refining and marketing company, with an overall market share of 36.5% of the Philippine oil market in 2013 in terms of sales volume per Company estimates based on Company information and data from the DOE. The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream business in that country. The Company had a 16.4% share of the Malaysian retail market for the six months ended June 30, 2014 per Company estimates based on Company information and data from Metrix Research. In the Philippines, the Company's ISO14001-certified Limay Refinery processes crude oil into a full range of petroleum products including gasoline, diesel, LPG, jet fuel, kerosene, fuel oil and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene. Through its network of close to 2,200 retail service stations in the Philippines as of June 30, 2014, the Company sells gasoline, diesel and kerosene to motorists and to the public transport sector. The Company also sells its LPG brands "Gasul" and "Fiesta Gas" to households and other consumers through an extensive dealership network. The Company operates a lubricant oil blending plant at its oil terminal in Pandacan, Manila, the Philippines, where it manufactures lubricants and greases. The Company also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

Factors affecting results of operations

The Company's financial position and results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected the Company's results in the past and that the Company expects to affect its financial results in the future. Factors other than those set out below could also have a significant impact on the Company's financial position and results of operations in the future.

Crude Oil Prices

Imported crude oil generally accounts for a large portion of the Company's total cost of goods sold. For example, in the six months ended June 30, 2014, crude oil accounted for approximately 52% of the Company's total cost of goods sold. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs. Therefore, the prices of the Company's principal products are highly dependent on international crude oil prices.

The Company is exposed to fluctuations in the price of crude oil, which is subject to volatile price movement caused by a number of factors beyond the Company's control, including changes in global supply and demand, international economic conditions, global conflicts or acts of terrorism, weather conditions and domestic and foreign governmental regulation. The Company holds approximately two months and approximately three weeks of crude oil and finished petroleum products inventory in the Philippines and Malaysia, respectively. The prices at which the Company sells its products generally rise and fall in line with international crude oil prices.

Accordingly, since the Company accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices could adversely affect the Company, as it may require the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices. See “Risk Factors—Risks Relating to the Company’s Business and Operations—Volatility of the price of crude oil may have a material adverse effect on the Company’s business, results of operations and financial condition.” Furthermore, a sharp rise in oil prices would increase the Company’s requirements for short-term financing for working capital and may result in higher financing costs for the Company. Fluctuations in the prices of crude oil affect the Company’s margins.

The Company enters into commodity swaps and options to manage the price risks of crude oil and products. However, volatile crude oil prices could still adversely affect the Company, as the Company may not be able to pass on the effects of crude oil price changes to consumers in a timely manner.

Governmental Regulation of Fuel Prices

As in many countries, the fuel business in Malaysia is regulated by the government. The Malaysian government regulates the pricing structure through the APM, pursuant to which it mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. See “Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011.” The Malaysian government subsidizes fuel prices so that increases in international crude oil prices are not borne fully by Malaysian consumers. The Company’s financial position thus depends to a significant degree on the Malaysian government’s prompt payment of these fuel subsidies. The Malaysian government has publicly stated that the country’s fuel prices will eventually be deregulated and set on a free market basis, as the current subsidy levels are unsustainable. However, no firm timeline has been provided for this deregulation. There can be no assurance that the Malaysian government will not decide to decrease or eliminate its subsidies or narrow their application in the future without a corresponding commensurate increase in or elimination of the price ceiling. A substantial portion of the Company’s revenue is derived from sales of refined petroleum products in Malaysia that are subject to price controls. Accordingly, if international crude oil prices remain high or increase further and the Malaysian government decreases or eliminates the refined petroleum product subsidies without increasing or eliminating the refined petroleum product price ceilings, the Company’s financial position and results of operations would be materially and adversely affected.

Competition

The Company faces intense competition in the sale of petroleum and other related products in the markets in which it operates. The Company competes with a number of multinational, national, regional and local competitors in the oil industry. In the oil industry, competitive factors generally include price, product quality, customer service, operational efficiency and distribution network. The Company’s sales and results of operations will be affected by its ability to manage costs, increase and maintain efficiency at its refineries, effectively hedge against fluctuations in crude oil prices, and maximize utilization of its assets and operations.

Foreign Exchange Rates

A substantial portion of the Company’s revenues is denominated in Philippine Pesos and Ringgit Malaysia, while a substantial portion of its expenses, including crude oil purchases and foreign currency denominated debt service costs, are denominated in U.S. dollars. The Company’s financial reporting currency is the Peso, and therefore depreciation of the Peso would result in increases in the Company’s foreign currency denominated expenses as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the Company’s U.S. dollar denominated debt obligations, thereby adversely affecting the Company’s results of operations and financial position. In addition, there can be no assurance that the Company could increase its Peso- or Ringgit-denominated product prices to offset increases in its crude oil or other costs resulting from any depreciation of the Peso

or the Ringgit, as applicable. Since January 1, 2009, the value of the Peso against the U.S. dollar has fluctuated from a low of ₱49.27 per U.S. dollar on March 3, 2009 to a high of ₱40.55 per U.S. dollar on March 14, 2013. In the same period, the value of the Ringgit Malaysia against the U.S. dollar has fluctuated from a low of RM 3.7365 per U.S. dollar on March 5, 2009 to a high of RM 2.9342 per U.S. dollar on July 26, 2011. While the Company uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There can be no assurance that the value of the Peso or the Ringgit Malaysia will not decline or continue to fluctuate significantly against the U.S. dollar, and any significant future depreciation of the Peso or the Ringgit Malaysia could have a material adverse effect on the Company's margins, results of operations and financial position.

Regulatory Environment

The Company's operations are subject to various taxes, duties and tariffs. The tax and duty structure of the oil industry in the Philippines has undergone some key changes in recent years. For example, import duties for crude oil and petroleum products were increased on January 1, 2005 from 3% to 5%, and these duties were subsequently reduced to 0% with effect from July 4, 2010 (except for certain types of aviation gas). Furthermore, the Philippine government imposed an additional 12% VAT on the sale or importation of petroleum products in 2006. In Malaysia, its current system of import duties and sales taxes will be replaced by a goods and service tax beginning April 1, 2015. There can be no assurance that any future tax changes in the Philippines or Malaysia would not have a material and adverse effect on the Company's financial position and results of operations.

In addition, the Company is subject to a number of national and local laws and regulations, including safety, health, environmental and zoning laws and regulations. Compliance with, and changes in, laws and regulations, including interpretations thereto, could result in substantial compliance costs and have other significant effects on the Company's business and operations.

Economic and Political Conditions in the Philippines and Malaysia

The Company is a Philippine corporation. The Company derives substantially all of its revenues and operating profits from sales of its products in the Philippines and Malaysia. As a result, the Company's business, financial position, results of operations and prospects are substantially influenced by the economic and political conditions in those countries. Although the Philippine and Malaysian economies have both experienced stable growth in recent years, both economies have in the past experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso or the Ringgit Malaysia, as applicable, and the imposition of exchange controls. Also, in the last few years, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. Sales of the Company's products are directly related to the strength of the Philippine and Malaysian economies (including overall growth levels and interest rates) and tend to decline during economic downturns. Any downturn in the Philippine or Malaysian economies may negatively affect consumer sentiment and general business conditions in the Philippines or Malaysia, as applicable, which may lead to a reduction in demand for the Company's products.

Capital Expenditure Projects and Financing

The Company's business is capital intensive and requires substantial capital expenditures. The Company has upgraded the Limay Refinery and expanded its retail service station network in the Philippines over the past several years and intends to continue to increase investments in these areas, as well as enhancing the facilities at the Port Dickson Refinery and rebranding and refurbishing its retail service stations in Malaysia. See "Description of the Issuer —Capital Expenditures Plan" for more information about the Company's capital expenditure plans. If the Company fails to complete its planned capital expenditure projects on time or within budget or at all, or to operate its facilities at their designed capacity,

it may be unable to increase its sales and profits or to capture additional market share as planned, and its business, results of operations and financial position could be adversely affected.

In addition, the Company has incurred a substantial amount of indebtedness to finance its capital expenditure projects, a significant portion of which is due in five years or less. As of June 30, 2014, the Company had outstanding long-term debt (net of current portion of long-term debt) of ₱65.8 billion. The increase in the Company's outstanding long-term debt in the past few years has resulted in significantly higher interest expenses and net financing costs. To meet its debt servicing obligations, the Company will need to generate sufficient cash flows from its operations or arrange for additional financing.

The Company's ability to complete its planned capital expenditure projects and meet its debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional financing. Failure by the Company to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial condition and results of operations.

Joint Ventures

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

As the Company owns a minority equity interest in MNHPI, this entity is reflected in the Company's consolidated financial statements under the equity method of accounting.

Acquisitions of Subsidiaries

In March 2010, the Company acquired a 40% stake in PAHL, owner of PPI. As of end-2013, the Company had a 45.9% stake in PAHL. PPI operated a polypropylene plant located in Mariveles, Bataan in the Philippines. On July 1, 2014, PPI's polypropylene business acquired by the Company to enhance efficiency.

In March 2012, the Company acquired 100% of the voting shares in each PFI Malaysia (formerly known as ExxonMobil Malaysia Sdn. Bhd.) and POM (formerly known as ExxonMobil Borneo Sdn. Bhd.) from Mobil International Petroleum Corporation and ExxonMobil International Holdings Inc., respectively.

In March 2012, the Company acquired 65% of the voting shares of PMRMB (formerly known as Esso Malaysia Berhad) from ExxonMobil International Holdings Inc. The Company subsequently acquired an additional 8.4% of the voting shares of PMRMB in May 2012 pursuant to a mandatory takeover offer.

As the Company wholly-owns PFI Malaysia and POM and holds 73.4% of the voting shares of PMRMB, these entities have been consolidated into the Company's consolidated statements of income since the second quarter of 2012.

Significant Accounting Policies

The preparation of the Company's consolidated financial statements in accordance with PFRS requires the Company's management to make estimates and assumptions that affect the amounts reported in the Company's consolidated financial statements and the related notes. Actual results may differ from those estimates and assumptions. For a description of the Company's significant accounting policies, see note 3 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2013 included elsewhere in this Prospectus.

Results of Operations

YTD June 2014 vs. YTD June 2013

Petron Corporation posted a consolidated net income of ₱3.01 billion in the first half of 2014, significantly better than the ₱1.13 billion earnings reported during same period in 2013 with the improvement in margin and reduction in non-operating charges. Healthier margin resulted mainly from higher sales volume and better sales mix. During the current period, reference crude and MOPS prices in the region are more stable compared last year as the benchmark Dubai crude traded at a monthly average of US\$104.02 to US\$108.03 per barrel, narrower than the US\$100.32 to US\$111.10 range in 2013. The Philippine peso depreciated versus the US Dollar from an average of ₱41.26 in first half 2013 to ₱44.49 this year while the Malaysian Ringgit also weakened from an average of RM3.08 last year to RM3.27 per US\$ in 2014.

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose from ₱7.36 billion to ₱9.40 billion this year with stronger operating income.

Similarly, earnings per share stood higher at ₱0.09 while return on sales increased to 1.2% from 0.5%.

Combined Sales volume of both Philippine and Malaysian operations grew by 8% to 43.1 million barrels (MMB) from 39.8 MMB last year. Philippine volumes increased by 10% to 25.1 MMB as the Company continued to reap rewards from its on-going service station expansion program. Industrial sales also increased with growth coming from the fishing and power-generation sectors. In Malaysia, volumes increased by 6% to 18.0 MMB on stronger network, industrial and LPG sales. The Company's rebranding and upgrading programs are in full swing with 380 out of 550 stations already converted to the Petron brand. Industrial sector improved with the solicitation of key aviation accounts.

Net sales revenue went up by 18% from ₱218.78 billion a year ago to ₱258.23 billion in the current year. Aside from the growth in sales volume, average selling price per liter increased by ₱3.07 with the depreciation of the Philippine Peso and the Malaysian Ringgit against the US Dollar.

Correspondingly, Cost of Goods Sold surged by 18% to ₱246.56 billion from prior year's ₱209.29 billion at the back of higher sales volume and the escalated average cost per liter (2014: ₱35.95 vs. 2013: ₱33.08). Increase in cost per liter was also driven by the weakening of the Philippine Peso and Malaysian Ringgit partly toned down by the less expensive cost per barrel of crude that went into cost of goods sold.

Inclusive of Refinery fuel, Refinery Operating Expenses in the Philippines amounted to ₱7.58 billion, up by 15% from ₱6.61 billion over the same period in 2013. Higher purchased utilities due to higher crude run contributed mainly to the increase in expenses.

Selling and Administrative Expenses ("OPEX") summed up to ₱5.81 billion and exceeded last year's expenditures of ₱5.19 billion. In the Philippines, the increase was attributed largely to the rent and depreciation of additional service stations and higher insurance cost. In Malaysia, additional expenses were incurred on LPG cylinder rebranding into Gasul brand, upgrading of existing service stations, and in the launching of the "PMILES" loyalty card program. On a peso per liter basis, actual OPEX was slightly higher at ₱0.85 versus ₱0.82 in 2013.

Non-operating charges of ₱1.82 billion were considerably lower than last year's ₱2.91 billion level traced mainly to higher capitalized interest on loans used to finance the RMP-2 project, lower forex losses on dollar denominated transactions, and higher unrealized commodity hedging gain. These were partly offset by the absence of one-time gain on sale of MegaPlaza last year coupled by the drop in interest income with the partial collection of advances from PCERP.

2013 vs. 2012

In 2013, Petron registered a consolidated net income of ₱5.09 billion, almost three times the ₱1.78 billion restated profit a year before. The significant increase in income was brought about by better margins, partly offset by the rise in selling and administrative expenses with the full consolidation of Petron Malaysia ("PM") this year versus nine months last year.

Revenues grew by 9% or ₱38.84 billion to ₱463.64 billion from ₱424.80 billion in previous year with the full consolidation of PM. Excluding PM, sales of Petron Philippines ("PP") dropped by ₱2.11 billion mainly due to lower volume on account of strategic rationalization of LPG and industrial fuel oil ("IFO") accounts focusing only on profitable sales.

Sales volume generated in 2013 aggregated to 81.5 million barrels ("MMB"), up by 10% or 7.2MMB from previous year's 74.3MMB essentially due to the full consolidation of PM's 34.4MMB sales volume.

Cost of Goods Sold ("CGS") increased to ₱440.48 billion from last year's ₱406.80 billion likewise traced to the full consolidation of PM which contributed 40% (₱177.38 billion) to the total CGS. Meanwhile, CGS of PP dipped by 2% or ₱5.49 billion due to lower sales volume coupled by the drop in FOB per barrel of crude that formed part of CGS (2013: US\$108.42 vs. 2012: US\$111.88).

Refinery Operating Expenses in PP which formed part of CGS went up by 7% or ₱0.48 billion to ₱6.88 billion in 2013. The increase was attributed to higher employee cost due to additional manpower complement, and higher purchased services and utilities, tempered by lower maintenance and repairs.

Selling & Administrative Expenses ("OPEX") totalled ₱11.48 billion in 2013, ₱1.34 billion more than the ₱10.14 billion expenditures in the preceding year brought about by the full consolidation of PM's expenses which added ₱3.55 billion to the total OPEX. Similarly, PP's expenditures rose by 4% or ₱0.30 billion mainly due to higher employee costs, rental expense, and materials and supplies, partially offset by lower advertising expense and the absence of one-off items in 2013.

Net Financing Costs & Other Charges significantly dropped to ₱4.74 billion from ₱5.62 billion in 2012 largely due to higher capitalized interest of the on-going RMP-2 project and higher interest income. These were partly negated by higher bank charges and unrealized translation losses on US-dollar denominated transactions in 2013 as opposed to the gains recognized in the previous year as the Philippine Peso gradually depreciated this year versus the US dollar.

With the remarkable upsurge in income before income tax, Income tax expense increased to ₱1.85 billion this year from ₱0.46 billion last year.

2012 vs. 2011

Petron closed 2012 with a restated consolidated net income of ₱1.8 billion, 80% or ₱7.1 billion lower than the ₱8.9 billion net income recorded in 2011. Despite the ₱2.2 billion restated loss incurred in the second quarter of 2012 due to the volatility in crude and product prices, the company managed to recover and posted a modest income.

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

Sales volume grew by 59% to 74.3 million barrels ("MMB") from previous year's 46.7MMB. Aside from the 26.6MMB sold by PM, domestic sales volume also improved by 8%, from 41.3MMB to 44.5MMB. The increase was contributed by all major sectors like Retail, Industrial and LPG.

Cost of Goods Sold ("CGS") went up by 62% or ₱155.19 billion from ₱251.61 billion in the preceding year to ₱406.80 billion. The rise in cost was prompted by the growth in sales volume compounded by the escalation in the FOB of crude that went into cost. Of the total CGS, 34% pertained to PM.

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

Selling & Administrative Expenses (“OPEX”) of ₱10.14 billion exceeded previous year’s ₱7.23 billion level by 40% owing primarily to the ₱2.50 billion expenses of PM. Philippine operation’s expenditures increased by 6% or ₱0.40 billion due to higher advertising expenses as well as expenses related to the acquisition of PM .

Net Financing Costs & Other Charges substantially increased to ₱5.62 billion from the ₱3.36 billion level of the previous year. This was attributed to higher borrowing level despite lower borrowing rate aggravated by the drop in interest earned from advances to PCERP. The increase was partly offset by the decline in share in net losses of associates and higher gains from US-dollar denominated transactions.

With the significant drop in income before income tax, Income tax expense decreased from ₱2.83 billion in 2011 to ₱0.46 billion in 2012.

Financial Position

June 2014 vs. December 2013

Petron’s consolidated assets as of June 30, 2014 further increased by 2% (₱5.44 billion) to ₱362.90 billion, from end-December 2013 level of ₱357.46 billion essentially on account of the increases in Inventories and Property, plant and equipment trimmed down by the reduction in Cash and cash equivalents and other non-current assets.

Cash and cash equivalents dropped by 15% (₱7.32 billion) to ₱43.08 billion from ₱50.40 billion in December 2013. The reduction in cash was essentially due to the Company’s additional working capital requirements and on-going capital projects.

Financial assets at fair value through profit or loss plummeted by 57% (₱444 million) to ₱339 million, prompted by lower marked-to-market gain on outstanding foreign currency forwards.

Inventories ballooned by 19% from ₱51.72 billion to ₱61.63 billion brought about by higher volume of crude and finished product for both Philippines and Malaysia.

Other current assets of ₱16.57 billion registered a 28% increase from the ₱12.93 billion level in December 2013 attributed to input VAT and various prepayments such as taxes, insurance and rent from Philippine operations.

Available-for-sale financial assets (current and non-current) dropped by 42% (₱388 million) to ₱527 million traced to the maturity of investments in government securities of insurance subsidiaries now temporarily placed in short-term investments.

Property, plant and equipment – net grew by 6% from ₱141.65 billion to ₱150.10 billion on account of the on-going construction of RMP-2, newly built service stations of PP and the service station rebranding of PM.

The ₱45 million share in net income of MNHPI resulted in the increase of Investment in associates to ₱930 million.

Deferred tax assets rose by 7% (₱11 million) to ₱173 million largely due to the increase in temporary differences of PM and PMC.

Other noncurrent assets-net decreased by 45% or ₱9.29 billion to ₱11.56 billion with the partial collection of advances from PCERP.

Derivative liabilities of ₱316 million more than doubled the ₱152 million level as at end of 2013 brought about by higher marked-to-market loss on outstanding foreign currency forwards.

Income tax payable escalated by 55% from ₱194 million to ₱301 million, an offshoot of the improvement in income of PM.

Deferred tax liabilities moved up by ₱400 million (9%) to ₱5.00 billion essentially due to the timing differences of PP's unrealized foreign exchange gains or losses.

Other noncurrent liabilities significantly dropped to ₱967 million from ₱4.54 billion in December 2013 with the reclassification of maturing retention payable to current liabilities.

Other reserves of (₱419 million) as of end-June 2014 showed a 42% improvement from (₱721 million) as of end December 2013 largely due to the translation gain of equity in foreign subsidiaries.

Non-controlling interests ended lower by ₱987 million to ₱16.94 billion due to dividend declaration of PMRMB and Petron Global Ltd.

2013 vs. 2012

Petron's consolidated assets as of December 31, 2013 stood at ₱357.46 billion, 28% (₱77.13 billion) higher than the ₱280.33 billion level as at end of December 2012 on account largely of the increases in property, plant and equipment and cash and cash equivalents.

Cash and cash equivalents rose by 87% or ₱23.43 billion to ₱50.40 billion essentially sourced from internally generated funds and proceeds from loans.

Financial assets at fair value through profit or loss of ₱783 million substantially exceeded last year's ₱186 million level brought about by higher marked-to-market gain on outstanding foreign currency forwards.

Trade and other receivables - net climbed by 17% or ₱9.94 billion to ₱67.67 billion prompted by the increases in PP's receivables from government and customers.

Other current assets of ₱12.93 billion stood higher by 20% from last year's ₱10.75 billion traced to PP's input value-added tax ("VAT").

With the sale of the remaining Petron MegaPlaza units and parking spaces in the second quarter, the company has no Assets held for sale as of end-December 2013.

Property, plant and equipment - net surged by 36% (₱37.54 billion) from ₱104.11 billion to ₱141.65 billion attributed to the company's major capital projects such as RMP-2 and network expansion, as well as PM's rebranding of service stations.

The reclassification of PAHL from an associate to a subsidiary resulted in the significant reduction of Investment in associates from last year's ₱1.64 billion to ₱885 million.

Deferred tax assets of ₱162 million more than double the end-December 2012 level of ₱78 million on account of the temporary differences of PM and PAHL.

Other noncurrent assets-net increased by 12% or ₱2.2 billion to ₱20.85 billion basically due to the Company's higher pension asset since substantial amount of actuarial gain was recorded this year.

Short-term loans and liabilities for crude oil and petroleum product importations went up by 11% or ₱14.08 billion to ₱138.78 billion owing to both PP and PM's higher liabilities for crude oil and finished product importations.

Trade and other Payables rose by 97% (₱14.42 billion) to ₱29.29 billion brought about by higher liabilities to company's contractors and suppliers.

Derivative Liabilities decreased by 38% from ₱245 million to ₱152 million due mainly to the Company's lower marked-to-market loss on outstanding foreign currency forwards tempered by the decline in fair value of outstanding transaction with embedded derivatives.

Income tax payable of ₱194 million went beyond the ₱52 million level in 2012 basically on account of the taxes payable of PM.

Long-term debt inclusive of current portion increased by 18% (₱10.17 billion) to ₱66.19 billion with the final drawdown of US\$210 million loan in January 2013 to complete the US\$485 million loan secured in 2012.

Retirement benefits liability declined by 17% from ₱983 million to ₱820 million mainly from PM's actuarial gain recorded this year.

Deferred tax liabilities moved up by 47% (₱1.46 billion) to ₱4.61 billion due to PP's utilization of minimum corporate income tax and net operating loss carried over from previous year as well as the recognition of deferred tax on retirement's actuarial gain.

Other noncurrent liabilities climbed by 86% (₱2.10 billion) to ₱4.54 billion principally due to additional retention payable to contractors.

Total equity amounted to ₱111.89 billion, 45% or ₱34.99 billion higher than the ₱76.90 billion level last year chiefly due to the ₱30.55 billion undated subordinated capital securities issued during the first quarter of this year.

2012 vs. 2011

Petron ended 2012 with total assets of ₱280.33 billion (as restated), 57% or ₱101.21 billion higher than the end-December 2011 level of ₱179.12 billion (as restated). The growth was due to the consolidation of PM and the increases in property, plant and equipment, and receivables of PP.

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

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

Trade and Other Receivables-net amounted to ₱57.73 billion, more than double the ₱26.61 billion level reported in 2011 attributed mainly to PM's receivables coupled with the increase in company's collectibles from the government.

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

Other current assets of ₱10.75 billion also registered a 31% increase from 2011's ₱8.18 billion level attributed to Petron's higher input VAT, and prepaid taxes and other expenses of PM and PP.

Assets held for sale surged to ₱588 million from 2011's ₱10 million mainly due to the reclassification of Petron MegaPlaza units and parking spaces which resulted in the decline in Investment Property - net, from ₱794 million to ₱115 million.

Property, plant and equipment-net escalated to ₱104.11 billion (as restated) from the December 2011 balance of ₱50.45 billion traced primarily to the capital projects at the Limay Refinery such as the RMP-2 and the Refinery Solid Fuel-Fired Power Plant ("RSFFPP"), construction of additional service stations as well as the fixed assets of the newly acquired subsidiary in Malaysia.

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

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

Deferred tax assets of ₱78 million went beyond 2011's ₱15 million level attributed to the deferred tax asset of PM.

The acquisition of PM, Parkville Estate and Development Corporation, and Mariveles Landco Corporation resulted in the recognition of Goodwill for ₱9.03 billion (as restated).

Restated Other noncurrent assets-net dipped by 33% from ₱27.71 billion to ₱18.64 billion due to the partial collection of advances to PCERP tempered by the balance brought in by PM.

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

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

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

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

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

Restated Retirement benefits liability increased significantly to ₱983 million from 2011's ₱4 million mainly from the balance of the newly acquired subsidiary in Malaysia.

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

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

Total equity closed at ₱76.90 billion (as restated) as of December 31, 2012 and surpassed the ₱62.48 billion (as restated) level as at end of December 2011 by 23% or ₱14.42 billion, largely from the issuance of preferred shares by a subsidiary.

Cash Flows

June 2014

Cash flows from operating activities was a net outflow of ₱15.83 billion as the Company's requirements for additional working capital and interest payments were significantly higher compared to cash generated from operations.

Cash flows from investing activities generated additional cash of ₱3.42 billion. Collections from advances to the retirement plan and government receivables are more than enough to finance the Company's on-going capital projects.

Cash inflows from financing activities amounted ₱5.23 billion. Net loan availments exceeded loan repayments and payments of cash dividends and distributions to holders of capital securities

2013 vs 2012

Operating activities contributed ₱33.75 billion to the Company's cash balance. Meanwhile, proceeds from issuance of undated subordinated capital securities and net availment of loans were used to finance the major capital projects at the Limay Refinery and construction of additional service stations.

2012 vs 2011

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

Key Performance Indicators

The Company's key performance indicators are set out below.

	As of December 31			As of June 30
	2011	2012	2013	2014
Current ratio	1.5	1.0	1.0	1.1
Debt to equity ratio	1.9	2.7	2.4	2.5
Return on equity (%)	15.0	3.4	5.4	5.4
Interest rate coverage ratio	3.6	1.9	3.2	3.6
Assets to equity ratio	2.9	3.7	3.2	3.2

The manner by which the Company calculates the above performance indicators are set out below.

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.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as at balance sheet date.

There are no known trends, events, material changes, seasonal aspects or uncertainties that are expected to affect the Company's continuing operations.

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Issuer's liquidity increasing or decreasing in any material way. The Issuer does not anticipate having any cash flow or liquidity problems within the next twelve months.

There are no significant elements of income or loss arising outside of the Issuer's continuing operations.

The Company is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has not had any changes in or disagreements with its independent accountants/auditors on any matter relating to financial or accounting disclosures.

INTEREST OF NAMED EXPERTS

LEGAL MATTERS

All legal opinion/matters in connection with the Offer shall be passed upon by Sycip Salazar Hernandez & Gatmaitan (“Sycip Law”) for the Joint Lead Managers and Picazo Buyco Tan Fider & Santos Law Offices (“Picazo Law”) for the Company. Sycip Law and Picazo Law have no direct and indirect interest in Petron. Sycip Law and Picazo Law may, from time to time, be engaged by the Company to advise in its transactions and perform legal services on the same basis that Sycip Law and Picazo Law provides such services to its other clients.

INDEPENDENT AUDITORS

The consolidated financial statements of Petron as at 31 December 2012 and 2013 and for the years ended December 31, 2011, 2012 and 2013 have been audited by R.G. Manabat & Co., a member firm of KPMG, independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Prospectus. The interim condensed consolidated financial statements as at June 30, 2014 and for the six-month periods ended June 30, 2013 and 2014 have been reviewed by R.G. Manabat & Co. in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

The Company’s Audit and Risk Management Committee of the Board reviews and approves the scope of audit work of the independent auditors and the amount of audit fees for a given year. The financial statements will then be presented for approval by the stockholders in the annual meeting. As regards to services rendered by the external auditor other than the audit of financial statements, the scope of and amount for the same are subject to review and approval by the Audit and Risk Management Committee.

The Company’s audit fees for each of the last two fiscal years for professional services rendered by the external auditor were ₱13.6 million and ₱14.1 million for 2012 and 2013, respectively.

There is no arrangement that experts shall receive a direct or indirect interest in the Company or was a promoter, Co-Manager, voting trustee, director, officer, or employee of the Company.

TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Preferred Shares. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Preferred Shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Preferred Shares under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Preferred Shares in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus. The tax treatment applicable to a holder of the Preferred Shares may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of the Preferred Shares.

PROSPECTIVE PURCHASERS OF THE PREFERRED SHARES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE PREFERRED SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines." A non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines. The term "dividends" under this section refers to cash or property dividends. "Tax Code" means the Philippine National Internal Revenue of 1997, as amended.

Taxes on Dividends on the Preferred Shares

Individual Philippine citizens and resident aliens are subject to a final tax on dividends derived from the Preferred Shares at the rate of 10%, which tax shall be withheld by the Company.

Non-resident alien individuals engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Shares at the rate of 20% on the gross amount thereof, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individual. A non-resident alien individual not engaged in trade or business in the Philippines is subject to a final withholding tax on dividends derived from the Shares at the rate of 25% of the gross amount, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individual.

The term "non-resident holder" means a holder of the Shares:

- who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a foreign corporation not engaged in trade or business in the Philippines; and
- should a tax treaty be applicable, whose ownership of the Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

Dividends derived by domestic corporations (i.e. corporations created or organized in the Philippines or under its laws) and resident foreign corporations from the Shares shall not be subject to tax.

Dividends received from a domestic corporation by a non-resident foreign corporation are generally subject to final withholding tax at the rate of 30%, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident foreign corporation. The 30% rate for dividends paid to non-resident foreign corporations with countries of domicile having no tax treaty with the Philippines may be reduced to a special 15% rate if:

- the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign sourced dividends; or
- the country in which the non-resident foreign corporation is domiciled allows a credit against the tax due from the non-resident foreign corporation for taxes deemed to have been paid in the Philippines equivalent to 15%.

The BIR has prescribed, through an administrative issuance, procedures for the availment of tax treaty relief. The application for tax treaty relief has to be filed with the BIR by the non-resident holder of the Shares (or its duly authorized representative) at least 15 calendar days (Revenue Memorandum Order 1-2000) prior to the first taxable event, or prior to the first and only time the income tax payor is required to withhold the tax thereon or should have withheld taxes thereon had the transaction been subject to tax.

The requirements for a tax treaty relief application in respect of dividends are set out in the applicable tax treaty and BIR Form No. 0901-D. These include proof of tax residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the non-resident holder of Shares which states that the non-resident holder is a tax resident of such country under the applicable tax treaty. If the non-resident holder of Shares is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

If tax at the regular rate is withheld by the Company instead of the reduced rates applicable under a treaty, the non-resident holder of the Shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue obtaining such a refund. Moreover, in view of the requirement of the BIR that an application for tax treaty relief be filed prior to the first taxable event as previously stated, the non-resident holder of the Shares may not be able to successfully pursue a claim for refund if such an application is not filed before such deadline.

Stock dividends distributed pro rata to any holder of shares are not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as share dividends by the holder is subject to either capital gains tax and documentary stamp tax or stock transaction tax.

Tax Treaties

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

Country	Dividends	Capital Gains Tax Due on Disposition of Shares Outside the PSE
	(%)	(%)
Canada.....	25 ⁽¹⁾	Exempt ⁽⁸⁾
France	15 ⁽²⁾	Exempt ⁽⁸⁾

Germany.....	15 ⁽³⁾	5/10 ⁽⁹⁾
Japan.....	15 ⁽⁴⁾	Exempt ⁽⁸⁾
Singapore.....	25 ⁽⁵⁾	Exempt ⁽⁸⁾
United Kingdom.....	25 ⁽⁶⁾	Exempt ⁽¹⁰⁾
United States.....	25 ⁽⁷⁾	Exempt ⁽⁸⁾

Notes:

- (a) 15% if the recipient company controls at least 10% of the voting power of the company paying the dividends.
- (b) 10% if the recipient company (excluding a partnership) holds directly at least 10% of the voting shares of the company paying the dividends.
- (c) 10% if the recipient company (excluding a partnership) owns directly at least 25% of the capital of the company paying the dividends.
- (d) 10% if the recipient company holds directly at least 10% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends.
- (e) 15% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year (if any) at least 15% of the outstanding shares of the voting shares of the paying company were owned by the recipient company.
- (f) 15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends.
- (g) 20% if during the part of the paying corporation's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting shares of the paying corporation were owned by the recipient corporation. Notwithstanding the rates provided under the Republic of the Philippines-United States Treaty, residents of the United States may avail of the 15% withholding tax rate under the tax-sparing clause² of the Tax Code provided certain conditions are met.
- (h) Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.
- (i) Under the tax treaty between the Philippines and Germany, capital gains from the alienation of shares of a Philippine corporation may be taxed in the Philippines irrespective of the nature of the assets of the Philippine corporation. Tax rates are 5% on the net capital gains realized during the taxable year not in excess of ₱100,000 and 10% on the net capital gains realized during the taxable year in excess of ₱100,000.
- (j) Under the tax treaty between the Philippines and the United Kingdom, capital gains on the sale of the shares of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.

In order for an exemption under a tax treaty to be recognized, an application for tax treaty relief on capital gains tax on the sale of shares must be filed by the income recipient before the deadline for the filing of the documentary stamp tax return, which is the fifth day from the end of the month when the document transferring ownership was executed.

The requirements for a tax treaty relief application in respect of capital gains tax on the sale of shares are set out in the applicable tax treaty and BIR Form No. 0901-C. These include proof of residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the seller of shares which provides that the seller is a resident of such country under the applicable tax treaty. If the seller is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

² The tax-sparing clause of the Tax Code may also apply to countries other than the United States, i.e. Switzerland.

Sale, Exchange or Disposition of Shares after the Offer Period

Capital gains tax

Net capital gains realized by a resident or non-resident other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares outside the facilities of the PSE, unless an applicable treaty exempts such gains from tax or provides for preferential rates, are subject to tax as follows: 5.0% on gains not exceeding ₱100,000 and 10.0% on gains over ₱100,000. An application for tax treaty relief must be filed (and approved) by the Philippine tax authorities to obtain an exemption under a tax treaty. Such application must be filed before the deadline for the filing of the documentary stamp tax return – otherwise, the tax treaty exemption cannot be availed of. The transfer of shares shall not be recorded in the books of the Company unless the BIR certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR in respect of the capital gains tax or other conditions have been met.

The transfer of the Shares shall not be recorded in the books of the Company unless the BIR certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR in respect of the capital gains tax or other conditions have been met.

Taxes on transfer of shares listed and traded at the PSE

A sale or other disposition of shares through the facilities of the PSE by a resident or a non-resident holder, other than a dealer in securities, is subject to a stock transaction tax at the rate of 0.5% of the gross selling price or gross value in money of the shares sold or otherwise disposed, unless an applicable treaty exempts such sale from said tax. This tax is required to be collected by and paid to the Government by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Under certain tax treaties, the exemptions from capital gains tax discussed herein may not be applicable to stock transaction tax.

In addition, VAT of 12.0% is imposed on the commission earned by the PSE-registered broker, and is generally passed on to the client.

Prospective purchasers of the Preferred Shares should obtain their own tax advice in respect of their investment in relation to these developments.

Documentary Stamp Taxes on Shares

The original issue of shares is subject to documentary stamp tax of P1.00 on each P200 par value, or fraction thereof, of the shares issued. On the other hand, the transfer of shares is subject to a documentary stamp tax at a rate of P0.75 on each P200, or fractional part thereof, of the par value of the Shares. The documentary stamp tax is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable either by the vendor or the purchaser of the Shares.

However, the sale, barter or exchange of Preferred Shares should they be listed and traded through the PSE are exempt from documentary stamp tax.

In addition, the borrowing and lending of securities executed under the securities borrowing and lending program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority, are likewise exempt from documentary stamp tax. However, the securities borrowing and lending agreement should be duly covered by a master securities borrowing and lending agreement acceptable to the appropriate regulatory authority, and should be duly registered and approved by the BIR.

Estate and Gift Taxes

The transfer of the Preferred Shares upon the death of a registered holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over P200,000.

Individual registered holders, whether or not citizens or residents of the Philippines, who transfer shares by way of gift or donation, will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15% if the total net gifts made during the calendar year exceed P100,000. The rate of tax with respect to net gifts made to a stranger (one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30%. Corporate registered holders are also liable for Philippine donor's tax on such transfers, but the rate of tax with respect to net gifts made by corporate registered holders is always at a flat rate of 30%.

Estate and gift taxes will not be collected in respect of intangible personal property, such as shares, (1) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (2) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Corporate Income Tax

In general, a tax of 30% is imposed upon the taxable net income of a domestic corporation from all sources (within and outside the Philippines) pursuant to R.A. 9337, except, among other things, (a) gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust funds, and similar arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20% of the gross amount of such income; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 7.5% of such income.

A minimum corporate income tax of 2% of the gross income as of the end of the taxable year is imposed on a domestic corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum corporate income tax is greater than the ordinary income tax for the taxable year.

Nevertheless, any excess of the minimum corporate income tax over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Furthermore, subject to certain conditions, the minimum corporate income tax may be suspended with respect to a corporation which suffers losses on account of a prolonged labor dispute, force majeure, or legitimate business reverses.

THE PHILIPPINE STOCK MARKET

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Joint Lead Managers or any of their respective subsidiaries, affiliates or advisors in connection with the offer and sale of the Shares.

Brief History

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Philippine government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system, which integrates all bid, and ask quotations from the bourses.

In June 1998, the Philippine SEC granted the Self-Regulatory Organization status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE has an authorized capital stock of 97.8 million shares, of which 61,058,726 shares are subscribed and fully paid-up [as of the date of this Prospectus]. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of P1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE's First Board, Second Board or the Small and Medium Enterprises Board. Each index represents the numerical average of the prices of component shares. The PSE has an index, referred to as the PHISIX, which as at the date thereof reflects the price movements of selected shares listed on the PSE, based on traded prices of shares from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006, simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. The PSEi is composed of shares of 30 selected companies listed on the PSE.

With the increasing calls for good corporate governance, the PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

The table below sets out movements in the composite index as of the last business day of each calendar year from 1995 to 2010 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (in ₱ billions)	Combined Value of Turnover (in ₱ billions)
1995	2,594.2	205	1,545.7	379.0

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (in ₱ billions)	Combined Value of Turnover (in ₱ billions)
1996	3,170.6	216	2,121.1	668.8
1997	1,869.2	221	1,251.3	586.2
1998	1,968.8	222	1,373.7	408.7
1999	2,142.9	225	1,936.5	781.0
2000	1,494.5	229	2,576.5	357.7
2001	1,168.1	231	2,141.4	159.6
2002	1,018.4	234	2,083.2	159.7
2003	1,442.4	236	2,973.8	145.4
2004	1,822.8	235	4,766.3	206.6
2005	2,096.0	237	5,948.4	383.5
2006	2,982.5	239	7,173.2	572.6
2007	3,621.6	244	7,977.6	1,338.3
2008	1,872.9	246	4,069.2	763.9
2009	3,052.7	248	6,029.1	994.2
2010	4,201.1	253	8,866.1	1,207.4
2011	4,372.0	245	8,697.0	1,422.6
2012	5,812.7	254	10,952.7	1,771.7
2013	5,889.8	257	11,931.3	2,546.3

Source: PSE

Trading

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Beginning January 2, 2012, trading on the PSE starts at 9:30 a.m. until 12:00 p.m., when there will be a one and a half hour lunch break. In the afternoon, trading resumes at 1:30 p.m. and ends at 3:30 p.m., with a 10-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays and days when the BSP clearing house is closed.

Minimum trading lots range from 5 to 1,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50% or down by 50% in one day (based on the previous closing price or last posted bid price, whichever is higher), the price of that security is automatically frozen by the PSE, unless there is an official statement from the company or a government agency justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If the issuer fails to submit such explanation, a trading halt is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the company is disseminated, subject again to the trading ban.

Non-Resident Transactions

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business

days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

Settlement

The Securities Clearing Corporation of the Philippines (“SCCP”) is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

- synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the PSE;
- guaranteeing the settlement of trades in the event of a Trading Participant’s default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund; and
- performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three trading days after transaction date (“T+3”). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book-entry system of the PDTC. Each PSE Broker maintains a Cash Settlement Account with one of the five existing Settlement Banks of SCCP, which are Banco de Oro Unibank, Inc., Rizal Commercial Banking Corporation, Metropolitan Bank and Trust Company, Deutsche Bank and Unionbank of the Philippines. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement system on May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets “buy” and “sell” transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

Scripless Trading

In 1995, the PDTC (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders’ meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, Banco de Oro Unibank, Inc., Rizal Commercial Banking Corporation, Metropolitan Bank and Trust Company, Deutsche Bank and Unionbank of the Philippines.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares in favor of the PCD Nominee Corporation (“PCD Nominee”), a

corporation wholly-owned by the PDTC, whose sole purpose is to act as nominee and legal title holder of all shares lodged in the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of the PCD Nominee through the PDTC participant will be recorded in the issuing corporation's registry. This trust arrangement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to the PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP Central Clearing and Central Settlement system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his shareholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of the PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the PCD Nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "de facto" custodianship role.

Amended Rule on Lodgment of Securities

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the Philippine SEC, without any jumbo or

mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in the amended rule on Lodgment of Securities of the PSE.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

- For a new company to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the transfer agent of the company shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on listing date.
- On the other hand, for an existing listed company, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the transfer agent for cancellation. The transfer agent shall issue a Registry Confirmation Advice to PDTC evidencing the total number of shares registered in the name of PCD Nominee in the listed company's registry as of confirmation date.

Issuance of Stock Certificates for Certificated Shares

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his shareholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

ANNEXES