



January 28, 2011
Petron Corporation's Disclosure

PHILIPPINE STOCK EXCHANGE, INC. (PSE)
Disclosure Department
3rd Floor, Philippine Stock Exchange Center
Ayala Triangle, Ayala Avenue
Makati City

Attention: **MS. JANET A. ENCARNACION**
Head, Disclosure Department

Dear Ms. Encarnacion:

Please find attached Petron's Annual Progress Report for the Year Ended December 31, 2010 in relation to Petron's use of the proceeds from its public offering of Preferred Shares on March 5, 2010.

Thank you.

Very truly yours,

A handwritten signature in black ink, appearing to read "JAC", is positioned above the typed name.

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

Report on Review of Certain Financial Information

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Mr. Emmanuel E. Eraña
**Chief Finance Officer/
Chief Information Officer**
Petron Corporation
SMC Head Office Complex
40 San Miguel Avenue
1550 Mandaluyong City

Introduction

We have reviewed the accompanying Annual Summary of Application of Proceeds (the Annual Summary) of Petron Corporation (the Company) for the year ended December 31, 2010, and accompanying explanatory notes with respect to the Company's use of the proceeds from its public offering of Preferred Shares (the PPREF Proceeds) on March 5, 2010. Management is responsible for the preparation and fair presentation of the Annual Summary in accordance with the planned use of the PPREF Proceeds as presented in the Offering Prospectus of the Company related to the PPREF. Our responsibility is to issue a report on the Annual Summary based on our review.

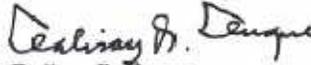
Scope of Review

We conducted our review in accordance with the applicable Philippine Standard on Review Engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial information are free of material misstatement. A review is limited primarily to inquiries of Company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Annual Summary of Petron Corporation does not present fairly, in all material respects, the information on the use of the PPREF Proceeds for the year ended December 31, 2010, in accordance with the planned use of such proceeds as summarized in the Offering Prospectus of the Company.

PUNONGBAYAN & ARAULLO



By: Dalisay B. Duque

Partner

CPA Reg. No. 0022692

TIN 140-240-854

PTR No. 2087604, January 4, 2010, Makati City

Partner's SEC Accreditation No. 0012-AR-2

BIR AN 08-002511-9-2008 (Nov. 25, 2008 to 2011)

January 26, 2011



January 26, 2011

THE DISCLOSURE DEPARTMENT
THE PHILIPPINE STOCK EXCHANGE, INC.
Philippine Stock Exchange Center
Exchange Road, Ortigas Complex
Pasig City, Metro Manila

Attention : ATTY. ROEL A. REFRAN
Head, Issuer Regulation Division

Re : Annual Summary of Application of Proceeds
For the Year Ended December 31, 2010

Dear Sir:

Please be advised that as of December 31, 2010, the remaining balance of the proceeds from the offering of Petron Preferred Shares ("PPREF") amounts to THREE BILLION EIGHTY-TWO MILLION ONE HUNDRED TWENTY-TWO THOUSAND SIX HUNDRED THIRTY-FIVE PESOS AND FORTY THREE CENTAVOS. (P3,082,122,635.43). The details of the disbursements for the period January 1 to December 31, 2010 made from the PPREF Offering proceeds of TEN BILLION PESOS (P10,000,000,000) that resulted in the above mentioned remaining amount are as follows:

| | | |
|--|----------------------|-----------------------|
| PPREF Proceeds | | Php 10,000,000,000.00 |
| Less: Disbursements for the four quarters of 2010: | | |
| 1. Repayment of short-term debt | Php 3,900,000,000.00 | |
| 2. Power plant project | 1,858,267,233.97 | |
| 3. Marketing retail expansion | 1,000,000,000.00 | |
| 4. PPREF-related disbursements | 159,610,130.60 | 6,917,877,364.57 |
| Balance of PPREF Proceeds as of December 31, 2010 | | Php 3,082,122,635.43 |


EMMANUEL E. ERAÑA
Chief Finance Officer/Chief Information Officer 

**PETRON CORPORATION
NOTES TO ANNUAL SUMMARY OF APPLICATION OF PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. BACKGROUND

Early in 2009, the Board of Directors (the Board) of Petron Corporation (the Company) approved the issuance of preferred shares to raise funds for capital expenditures related to expansion programs, and possibly, to reduce some of the Company's debts, which act was subsequently ratified by the Company's stockholders during the stockholders' meeting held on May 12, 2009. On October 21, 2009, the Board approved the amendment of the Company's Articles of Incorporation to reclassify a total of 624,895,503 unissued common shares to preferred shares with a par value of ₱1.00 per share. The said amendment was approved by a written assent of the stockholders on January 6, 2010 and the features of the preferred shares were approved by the Board Executive Committee on November 25, 2009.

In November 2009, the requirements for the registration statement of the Company's preferred shares, the Preliminary Prospectus, were submitted to the Securities and Exchange Commission (SEC). The application for listing of preferred shares was subsequently filed with the Philippine Stock Exchange (PSE). In the meantime, on January 21, 2010, the SEC approved the amendment to the Company's Articles of Incorporation to include preferred shares in the composition of its authorized capital stock. On January 22, 2010, the SEC favorably considered the Final Prospectus and the Issue Management and Underwriting Agreement. On March 5, 2010, the preferred shares became officially listed and traded at the PSE.

As required in the Notice of Approval of the Company's public offering of Preferred Shares (the Notice) issued by the PSE, the Company is required to submit to the PSE via the Online Disclosure System the following disclosures:

- any disbursement made in connection with the planned use of proceeds from the Preferred Shares Offering (the PPREF Proceeds);
- Quarterly Progress Report on the application of the PPREF Proceeds on or before 15 days of the following quarter;
- Annual Summary of Application of Proceeds on or before January 31 of the following year; and,
- approval by the Board of any reallocation on the planned use of proceeds.

2. RELEVANT INFORMATION

Expenditures from the PPREF Proceeds are discussed below.

(a) Nature of Expenditures

The PPREF Proceeds are being used to support the investment requirements of the Company, particularly for its refinery and marketing operations, as well as for general corporate purposes. The following are the three major classifications of expenditures from the PPREF Proceeds:

(i) Power Plant Project (PPP)

The Refinery's power generation system is being upgraded to a more efficient technology. This will improve the reliability, sourcing flexibility and cost efficiency of the Refinery's system to meet its growing steam and power requirements. The power plant is being constructed within the Company's Refinery compound in Limay, Bataan. The project cost is estimated at US\$200 million, or about ₱10.0 billion over a period of three years (2010 to 2012) and of which ₱5.0 billion will be funded from the PPREF Proceeds.

(ii) Marketing Retail Expansion (MRE)

To protect its leadership in the domestic oil industry, the Company is continuing its service station network expansion. About ₱1.0 billion a year is programmed for this project over the next five years.

As of December 31, 2010, the amount of PPREF proceeds set aside for MRE has already been fully used up.

(iii) Repayment of Short-term Debts (RSD)

To free up short-term credit lines available to the Company for its working capital requirements, particularly for importation of crude oil supply and petroleum products, the Company is repaying certain short-term debts from the PPREF Proceeds; earmarked for this purpose is about ₱3.9 billion.

As of June 30, 2010, the amount of PPREF proceeds set aside for RSD has already been fully used up.

(iv) PPREF-Related Disbursements

These are actual payments related to the listing and issuance of the Preferred Shares.

(b) Summary of Expenses Incurred

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
|-------------------------------|--------------------------|------------------------|------------------------|------------------------|--------------------------|
| Power plant project | ₱1,541,423,880.00 | ₱95,769,164.80 | ₱100,149,085.00 | ₱120,925,104.17 | ₱1,858,267,233.97 |
| Marketing retail expansion | 215,705,961.11 | 316,897,212.49 | 241,526,265.52 | 225,870,560.88 | 1,000,000,000.00 |
| Repayment of short-term debts | 3,540,793,208.34 | 359,286,791.66 | - | - | 3,900,000,000.00 |
| PPREF-related disbursements | 155,672,284.46 | 3,315,406.41 | 424,272.53 | 198,167.20 | 159,610,130.60 |
| Total | ₱5,453,595,333.91 | ₱775,268,575.36 | ₱342,099,621.05 | ₱346,993,832.25 | ₱6,917,877,364.57 |

(c) Application of Remaining Balance of PPREF Proceeds

The remaining balance of the PPREF Proceeds amounting to ₱3,082,122,635.43 as of December 31, 2010 is applicable to the remaining unserved amount allocated to the power plant project and any of the remaining PPREF-related disbursements such as external auditors' fee and other related disbursements.