

BLAZING NEW TRAILS



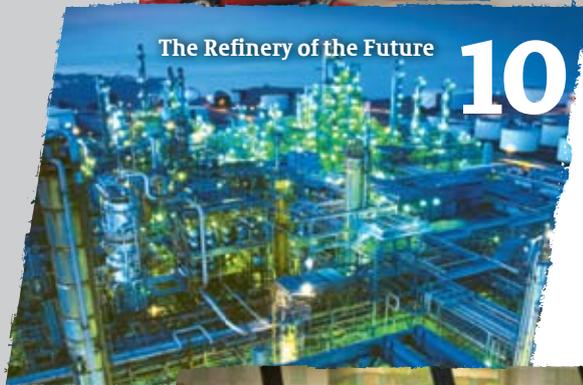
PETRON
Fuel Success.

**2010
ANNUAL
REPORT**

Our Vision

To be the leading provider of total customer solutions in the energy sector and its derivative businesses. We will achieve this by:

- Being an integral part of our customers' lives, delivering consistent customer experience through innovative products and services;
- Developing strategic partnerships in pursuit of growth and opportunity;
- Leveraging our refining assets to achieve competitive advantage;
- Fostering an entrepreneurial culture that encourages teamwork, innovation and excellence;
- Caring for community and the environment;
- Conducting ourselves with professionalism, integrity and fairness;
- Promoting the best interest of all our stakeholders.



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About Petron





Petron Corporation is the largest oil refining and marketing company in the Philippines. Supplying nearly 40% of the country's oil requirements, our world-class products and quality services fuel the lives of millions of Filipinos. We are dedicated and passionate about our vision to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

Petron operates a refinery in Limay, Bataan, with a rated capacity of 180,000 barrels a day. Our Integrated Management System-certified refinery processes crude oil into a full range of petroleum products including gasoline, diesel, liquefied petroleum gas (LPG), jet fuel, kerosene, industrial fuel oil, and petrochemical feedstocks benzene, toluene, mixed xylene and propylene.

From the refinery, Petron moves its products mainly by sea to 32 depots and terminals situated all over the country. Through this nationwide network, we supply fuel oil, diesel, and LPG to various industrial customers. Petron also supplies jet fuel at key airports to international and domestic carriers.

Through its more than 1,700 service stations, Petron retails gasoline, diesel, and kerosene to motorists and to the public transport sector. We also sell our LPG brands **Gasul** and **Fiesta** to households and other industrial consumers through an extensive dealership network.

Petron operates a lube oil blending plant at Pandacan Oil Terminal, where it manufactures lubes and greases. These are also sold through Petron's service stations and sales centers.

We source our fuel additives from our blending facility at the Subic Bay Freeport. This gives us the capability to formulate unique additives to produce premium fuels.

Petron is expanding its non-fuel businesses which include its convenience store brand **Treats**. We have partnered with major fastfood chains, and other consumer services companies to give our customers a one-stop full service experience. Petron continuously puts up additional service stations in strategic locations.

In line with our efforts to increase our presence in the regional market, we export various petroleum and non-fuel products to Asia-Pacific countries such as Japan, India, Malaysia, Singapore, South Korea, Thailand, Pakistan and even to the United Arab Emirates.

Message to Our Stockholders

Petron blazed new trails in 2010. We achieved unparalleled expansion on many business fronts including areas beyond our normal scope of operations. We embarked on major initiatives that allowed us to further strengthen our leadership position over the short-term while giving us a platform for sustainable growth moving forward. The year was also marked with notable achievements and several “firsts” for the company.

Groundbreaking programs, such as the local production of petrochemicals and the construction of a record number of stations, accounted for the company’s unprecedented income of P7.9 billion in 2010, an 86% increase from 2009. Our industry dominance was reaffirmed as our market share reached nearly 38%. We led our nearest competitor by 10%.

Petron’s 2010 total sales volumes, including export sales, increased by over 9% to 48.3 million barrels. Sales revenues increased by 30% to P229.1 billion versus P176.5 billion in 2009. Backed by solid numbers and the confidence of the investing public, our stock price strengthened in 2010, averaging 30% higher at P7.06 versus P5.39 in 2009.

2010 was marked by considerable volatility in international oil prices. Crude oil prices sustained its uptrend reaching US\$78 per barrel from US\$62 in 2009, as increased demand from China and India and the recovery of the global economy supported prices. And while the country’s economy expanded by 7.3%, local oil demand grew only by 3.3%, much lower than the 6% growth in 2009. Local competition remained cut-throat as new players continued to make inroads. At the end of 2010, new players had captured nearly 23% of the market.

Our robust performance, in spite of a difficult business environment, bodes well for the company and is a testament to the underlying strength of the organization and the soundness of the business imperatives we have put into motion.

Moving Up the Value Chain

We saw strong results from our deliberate strategy to move up the value chain and diversify into high-margin, high-value petrochemical feedstocks. 2010 marked the full year of operations of our BTX facility at our Bataan refinery which converts some of our product streams to petrochemical feedstocks, namely, benzene, toluene, and xylene. Combined with our propylene production, petrochemical sales volumes surged by 73% to 3.3 million barrels.

The local production of petrochemicals is essential to the country’s growth since these are the raw materials used in everyday applications. Food packaging, common home plastic wares, computers, and automobile parts are just a few products derived from petrochemicals. We are proud to be the first and only producer of petrochemical feedstocks in the country.

To further integrate this strategic business, Petron acquired a polypropylene (PP) plant in Mariveles, Bataan in the middle of 2010. The PP plant has the capacity to produce up to 160,000 metric tons of polypropylene annually and can further be expanded to meet demand. Its raw material comes from the Bataan refinery’s own propylene production. With its acquisition of this strategic facility, Petron gains the incremental value derived from converting propylene into polypropylene resin.

We are pleased to report that the polypropylene plant has been rehabilitated and was commissioned in February 2011.



Eric O. Recto
President



Ramon S. Ang
Chairman and Chief Executive Officer

Our expansion program has allowed us to gain a solid foothold in underserved areas across the archipelago. In many ways, Petron service stations have become catalysts for growth especially in the countryside.

Message to Our Stockholders

Making it More Convenient for You

Our aggressive network expansion program has made Petron's premium fuel brands and quality services more accessible to a greater number of customers.

Three hundred new service stations were constructed in 2010. This is the most number of stations ever built in the company's history. Our expansion program has allowed us to gain a solid foothold in underserved areas across the archipelago. In many ways, Petron service stations have become catalysts for growth especially in the countryside. More importantly, we welcomed into the Petron family more Filipino entrepreneurs who epitomize what the brand stands for— Leadership, Commitment, and Partnering Relationships. Complementing our retail network growth was the launch of pioneering fuels, namely, **Petron Blaze 100**, **Petron Turbo Diesel**, and **Petron Pinoy Gasoline**. As the leading oil refining company, we have the unique capability of formulating fuels that are relevant to Filipino motorists. **Petron Blaze 100**, for instance, is one of the few if not the only commercially-available gasoline in the world with a 100 octane rating. With the roll-out of these premium fuels, Petron now has the most extensive and superior quality product line in the market.

The success of the Petron brand is also hinged on our ability to give value-added services at our stations. The Petron station is an oasis for the weary traveler - a one-stop, full-service experience. The number of Treats convenience stores increased and we partnered with more local and international locators. Our Non-Fuels Business (NFB) remains a driver of growth as revenues increased by 10% in 2010.

Our NFB trade will grow exponentially as more cross-marketing activities are pursued with all other companies under the San Miguel Group. More service and product offers have already been introduced in Petron service stations to keep our customers coming back to our stations.

We have set in motion trailblazing projects that will not only have an impact on the oil industry, but will also benefit millions of Filipino consumers and the country as a whole.

Banking on our Integrity

For the sixth straight year, Petron was conferred the prestigious honor of being one of the best governed publicly-listed companies in the Philippines by the Institute of Corporate Directors (ICD). The distinction means that Petron has consistently complied with existing rules and regulations and has adhered to internationally accepted corporate governance practices. Good corporate governance is a non-negotiable in our organization since it is essential in enhancing stakeholder confidence and sustaining our success.

Business improvements are happening inside and out. Our operational facilities continued to be efficient, safe, and environment-friendly. We endeavored to have all our facilities certified under the globally-recognized Integrated Management System or IMS. The IMS combines all essential components, namely, quality management, environmental management, and workplace safety. Petron's Bataan Refinery is the only refinery in the Philippines with an IMS certification. Several of our facilities have hurdled stringent IMS audits in 2010 and we aim to have all 32 depots and terminals certified in the very near future.

Another operational milestone is the achievement of a record 38 million man-hours without lost time incidents. Petron was the only oil company cited by the Department of Labor and Employment - Bureau of Working Conditions for full compliance with workplace safety in all its facilities.

Together with our strong financial and operating performance, our corporate governance and sustainability initiatives helped us successfully conclude two landmark fund-raising activities to raise capital for our strategic initiatives. One was the P20 billion bond offering PhP-denominated notes payable in US Dollars. We took advantage of the low interest rate environment and the familiarity of investors of the structure. This innovative instrument allowed foreign investors to have access to peso-denominated corporate bonds. We are proud to be the first Asian corporation to issue this type of notes. We likewise issued 100 million Petron perpetual preferred shares in the Philippine Stock Exchange to raise an additional P10 billion.

The strong response of the investment community, both local and foreign, to our fund-raising activities is a vote of confidence for Petron's long-term viability and growth potential, as well as its numerous synergies with the San Miguel Group.

Building the Future Today

We have set in motion trailblazing projects that will not only impact on the oil industry, but will also benefit millions of Filipino consumers and the country as a whole.

In 2010, we completed the feasibility studies behind the company's biggest and most ambitious project to date—the US\$1.8 billion Refinery Expansion Project (RMP-2). The decision to push through with this massive project was not an easy one. After all, the local oil industry remains highly controversial. The industry remains risky given its exposure to external factors including volatility in the international oil markets. In the end, our vision of making the Petron Bataan Refinery among the best in Asia and our commitment to play a significant role in the country's economic future won out.

From a macro-economic perspective, RMP-2 will greatly enhance Petron's capability to locally supply the country's increasing demand for fuel products such as diesel and gasoline. It also gives us the capability to "digest" a wider range of crude oils from more parts of the world, ensuring security of supply. Another benefit from RMP-2 is the local production of fuels that meet the global clean air standard of the future—Euro IV and Euro V, further improving air quality in the country.

The construction of a power plant to secure more reliable and economical steam and power supply, particularly for our additional refinery units, also started in 2010. Significant cost savings will be derived from this project once completed. Further efficiencies are expected once RMP-2 is commissioned since an internally generated by-product, petcoke, can now be used to fuel the power plant.

We are excited and confident of Petron's prospects as value-creating initiatives are already in the pipeline. Indeed, we are poised for a strategic transformation that not only means sustained profitability for Petron but, also, a better tomorrow for our country and our countrymen.



Ramon S. Ang
Chairman and Chief Executive Officer



Eric O. Recto
President



Blazing New Trails

Run by Filipino refining experts, the 180,000 barrel-per-day Petron Bataan Refinery (PBR) is the most modern and largest refinery in the country today. It is a testament to the world-class capability of our countrymen and remains a true showcase of Petron's commitment to nation building. PBR is literally at the "heart" of our operations since this is where essential, world-class fuel products are produced to power the lives of millions of Filipinos daily. This commitment to ensure supply security of the country is the reason for the continued improvement of the refinery's operational efficiency.



“Raise your sights.
Blaze new trails.
Compete with the
immortals.” — David Ogilvy

The Refinery of the Future

In 2010, we broke ground on the Refinery Solid Fuel-Fired Boiler (RSFFB). This power-generation facility gives PBR a more reliable and economical steam and power supply as it expands its operations. Utilizing the latest technologies, the co-generation facility is almost twice as efficient as conventional plants. More importantly, the facility is environment-friendly because its systems reduce greenhouse gas emissions. The power plant, which is expected to generate significant savings, is scheduled to be operational by the middle of 2012. The commissioning of this new facility is essential since it will power, not only the current refinery units, but also the additional facilities under the Refinery Expansion Project or RMP-2.

RMP-2, which was approved in 2010, is Petron's largest investment and most ambitious project to date. It represents the company's commitment to meet the fast-changing energy needs of the Philippines. The project will increase our capability to supply the increasing demand for white products and petrochemical feedstocks. It also gives PBR more flexibility to process a

wider range of crude oil types that would further enhance the country's energy security. RMP-2 will also make Petron the only oil company capable of locally producing fuels that meet the global clean air standard of the future—Euro IV and Euro V.

2010 also marked the first year of full-operations of the company's Benzene, Toluene, and Xylene (BTX) facility that contributed to the significant increase in petrochemical production including that of petrochemical propylene. Petrochemical sales volume surged by 73%, providing additional revenue streams and increasing the company's presence in the export market. Benzene, Toluene, and Mixed Xylene are the raw materials used in the manufacture of various products including food containers, water bottles/liquid containers, polyester fabrics, luggage, machine housings and solvents.

A significant stake in a polypropylene (PP) plant in Mariveles, Bataan was acquired to further support diversification into petrochemicals. Petron partnered with PTT of Thailand in the rehabilitation and commissioning of the PP plant. The PP plant has the capacity to produce up to



Appliances



Automobile Parts



Plastic Food Containers

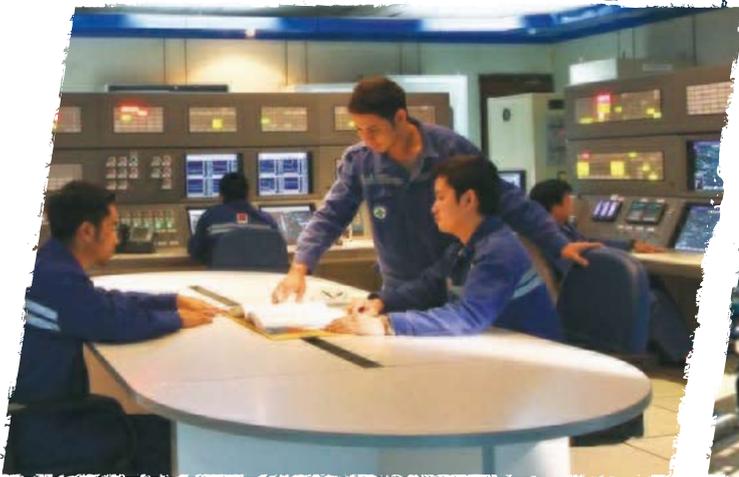


The new power plant, currently under construction, will give the Bataan refinery a more reliable and economical steam and power supply.



A chemist in the Philippine Polypropylene Inc. (PPI) examines polypropylene pellets in the laboratory for quality control.

Blazing New Trails



225,000 metric tons of polypropylene annually. Its propylene feedstock will come from nearby PBR, which can produce up to 140,000 metric tons of propylene yearly. With this facility, Petron benefits from the added value of converting its propylene production into polypropylene resin, integrating its petrochemical business further.

The company has also benefitted substantially from the Continuous Improvement and Productivity (CIP) program, where Bataan Refinery employees are encouraged and given incentives to brainstorm and implement projects that yield positive, tangible results. Under this program in 2010, PBR was able to maximize the production of diesel and allow the re-blending of higher-grade gasoline. Process enhancements also improved the recovery of high-value, high-margin petrochemical feedstocks—benzene, toluene, and propylene. This also resulted in higher conversion of black products (fuel oil) to white products (e.g. gasoline, diesel, LPG, etc.), contributing higher revenues for the company. For 2010, we gained over P20 million for 23 improvement projects. Since its inception in 2003, 451 CIP-related projects have been submitted and implemented valued at over half a billion pesos in savings.

Several initiatives were intensified at the Bataan Refinery to reduce our carbon footprint and help mitigate climate change. We made further inroads in our Greenhouse Gases (GHG) and Air Emission inventory program at PBR which was started in 2009. The initiative calls for a

more focused approach in managing emissions by looking for engineering solutions to benefit the environment. A major step taken was to recover more fuel oil from the Flare Gas Facility by recycling this supposedly unusable fuel instead of burning it. GHG emissions at our refinery have been significantly reduced by 56,000 tons per year.

PBR's water consumption has been successfully reduced through Project CODy, which sought to identify opportunities for reusing wastewater. Raw water consumption has since been reduced by almost 12%. There were also significant strides in managing and reusing solid and hazardous waste. Waste reduction and reuse initiatives have decreased solid and hazardous waste by roughly 6%, resulting in incremental savings of P11 million per year. More savings are expected as we build on these early gains.

The launch of PBR's Behavior-Based Safety (BBS) program, which aims to make safety a way of life, further strengthened the safety programs already in place. The success of the program was affirmed when it helped the Bataan refinery achieve a safety milestone of 10.1 million man-hours without lost time incidents.

The combined safety and environmental initiatives allowed the Refinery to easily hurdle the Integrated Management System (IMS) surveillance audit conducted by TUV-SUD-PSB Inc. PBR successfully passed the international standards for quality, environmental management, and occupational health and safety.



Petron's jetty facility at the Bataan refinery

At any given moment, market forces could demand drastic changes across our supply chain. This is why we continue to integrate and improve our logistics infrastructure to eliminate unnecessary costs and to ensure sustainability and continuous flexibility. Our primary aim is to add more value and, consequently, be more responsive to our customers' requirements.

Adding Value Throughout Our Supply Chain

As part of efforts to ensure that our primary distribution system delivers products in a safe, efficient, and timely manner, vessel safety inspections were conducted on 55 domestic and 40 international marine vessels. The Ship Inspection Report Programme (SIRE), a significant safety initiative under the Oil Companies International Marine Forum (OCIMF), was implemented in the fourth quarter of 2010. SIRE aims to meet and exceed satisfactory tanker quality and ship safety standards. Global Positioning Systems (GPS) were installed to elevate our capability to monitor and evaluate the performance of our contractors' marine vessels.

Several major projects were implemented in 2010, thus expanding our logistical capabilities in key markets and serving the requirements of our customers better. Jet A-1 facilities were constructed at our Navotas Depot to serve as

back-up to our Pandacan Terminal, assuring continued fuel supply to various airline carriers, especially at times of emergency. Bawing Depot facilities were upgraded to handle more white products and effectively serve tributary areas such as General Santos City and South Cotabato. The loading pier at Mandaue City in Cebu was also refurbished to ensure the safe and efficient fuel loading of marine vessels.

Major investments continued to be made at our facilities to ensure sufficient supply of gasoline blended with ethanol across the country. This strongly supports the government's thrust under the BioFuels Law which mandates the use of alternative transportation fuels namely ethanol and Coco Methyl Ester (CME).

2010 also witnessed the IMS-certification of seven facilities in Mandaue, Bacolod, Iloilo, Tacloban, Ormoc, Roxas, and Mactan. IMS or

The Zamboanga Depot is one of several Petron facilities that is IMS-Certified. This certification means that the facility adheres to strict international standards in the areas of process quality, environmental management, and workplace safety.





Integrated Management System is a cohesive framework of policies, procedures, and processes covering various aspects with the aim of fueling an organization's efficiency. We are currently in the process of having all our depots and terminals IMS-certified.

A total of 16 depots and terminals maintained their International Ship and Port Facility Security (ISPS) certifications. ISPS certification means that these facilities have effective security procedures and are safe for use by local and foreign vessels. These internationally recognized certifications as well as our efforts towards duly certifying all our facilities underscore our zealous commitment to safe and efficient operations.

Safety extended beyond the walls of our facilities as our personnel lent their expertise to help neighboring communities during fire emergencies. In September 2010, for instance, the Zamboanga Depot fire brigade team responded to a nearby residential fire, saving lives as well as millions of pesos in property. The following month, our Pandacan Terminal emergency response team lent prompt assistance to an industrial customer in Cabuyao, Laguna, preventing what could have been a catastrophic fire.

These incidents spur us to continually acquire and maintain the most modern fire fighting and oil spill containment equipment, and to train our personnel and business partners, such as the Ayala Group to properly respond to emergency situations. Waterborne Industry Spill Exercises (WISE) were conducted in Batangas, Cebu,

and Davao to further hone employee skills and improve our preparedness.

Multi-functional audits and inspections across the supply chain - including storage facilities, service stations, LPG retail outlets, and consumer accounts - were conducted with focus on improving safety and sound engineering standards and practices.

Tank truck fleet modernization continued with the accelerated replacement of several units to upgrade delivery reliability and safety. A complementary Tank Truck Scheduler system was developed. This is a program that automates assignments and maximizes utilization of trucks. The In-Vehicle Management System (IVMS) which uses GPS technology for better monitoring and reporting of tank truck activities was also rolled out. The system boasts of police assistance services in case of emergencies. All these programs will help us determine the ideal number of tank trucks needed for continued supply of fuels to our customers at the most efficient cost.

The value of these supply chain initiatives was tested in late 2010 when a pipeline used to transport competitive fuels from Batangas to Manila was shut down due to a major leak. There were fears of a fuel shortage as this pipeline supplied considerable volumes of fuels to Metro Manila and nearby provinces. By intensifying logistics operations, Petron was able to avert supply shortfalls and proved our company's reliability to millions of Filipinos.

Breaking Boundaries in Fuels Technology

Petron Blaze 100 is a first-of-its-kind premium gasoline in the Philippines with a Research Octane Number (RON) of 100. It was formulated to ensure unparalleled engine power and to unleash the full potential of high-performance vehicles. This superior gasoline product is highly resistant to “knocking” which results in uneven fuel burn, higher consumption, and engine damage. While **Petron Blaze 100** is recommended for high-end vehicles, other cars will get the same improved fuel economy and power because of its very high octane rating. And since it does not contain ethanol, it can be safely loaded in older vehicles that are not equipped to take in ethanol-blended gasoline.

We also achieved another “first” in the industry with the launch of **Petron Turbo Diesel**. **Petron Turbo Diesel** is a high technology, high performance product that delivers maximum efficiency, reduced exhaust emissions, and non-stop engine cleaning action. This new product was designed for vehicles with Common Rail Direct Injection (CRDI) diesel engines.

As part of efforts to cushion the impact of high fuel prices, we rolled out **Petron Pinoy Gasoline** in select Petron service stations nationwide. This is a more affordable gasoline variant for public utility vehicles such as tricycles, taxis, bancas, and farm equipment. Dubbed as “*ang gas para sa taong-bayan*,” **Petron Pinoy Gasoline** is over P3.00/li cheaper than our next premium gasoline brand.

These new fuels join our product line of well-known fuel brands such as **XCS**, **Xtra Unleaded**, and **DieselMax**.

National and local store-marketing activities were done to sustain brand patronage. Purchases of Petron Blaze 100 and Petron Turbo Diesel were rewarded in the *5X Points for Customers with SM Advantage Cards* and in the *Petron Turbo Diesel Instant Win promo*. Dealer-initiated promos,

such as *Biyahe All the Way* and *Premyo sa Petron*, were also done.

Product improvement was complemented by network expansion to ensure greater availability and accessibility of our world-class products and services. The retail network program helps empower our countrymen by creating business opportunities for small entrepreneurs who are looking for viable investments with a company that they trust. Much needed employment is generated in rural areas as many new Petron service stations are located in far-flung areas.

2010 saw an unprecedented expansion in our network as the total service station count was boosted to over 1,700 –a 20% increase from the previous year. Our network is by far the most extensive in the country.

As part of our promise to make every Petron station an oasis for travelers, we continued to partner with more fast food restaurants and other service providers. Total number of service locators, including locally and internationally recognized brands such as Chowking, McDonalds and Starbucks, continued to increase in 2010.

The number of **Treats** convenience stores significantly increased. There are now over 60 **Treats** outlets that offer a comprehensive product assortment ranging from packaged goods, beverages, fresh food, and other products motorists need to keep them comfortable on the road.

Synergy projects within the San Miguel Corporation (SMC) group continued - such as the inclusion of Bank of Commerce ATM machines in our network and the availability of SMC products like San Mig Coffee and Magnolia in the **Treats** product lines.

Various maintenance and engineering projects continued to improve service station look and to foster safe and environment-friendly operations.



Blazing New Trails



Loyalty programs, which include **Petron FleetCard** and **Petron-BPI Mastercard**, complemented our retail business. Combined cardholder base by the end of 2010 was 172,000, a 17% increase from 2009. More and more customers have subscribed to our card products due to the value-added benefits they provide. These include, among others, fuel rebates, motoring assistance, and service discounts. Furthermore, we continued to leverage on the unique features of the **Petron e-Fuel Card**, the first prepaid and reloadable fuel card in the industry that gives more convenience with cashless transactions.

Supporting the robust growth of the Cards Business, the number of Petron service stations capable of accommodating **Petron FleetCard** and **SMA Advantage Card** was expanded. Almost all fleet-affiliated stations can process card transactions without using conventional telephone lines.

These initiatives resulted in a 3% increase in sales volumes in the highly competitive reseller market, allowing Petron to strengthen its reseller pole position with a total share of 34%.

In Industrial-Civil Trade, aggressive solicitation of new and competitive accounts led to a 24% increase in volumes. New major accounts include a diverse conglomerate with interests in shipping, finance, and real estate; a major multi-national consumer company; and a power generation firm based in the Visayas.

In the international marine business, our extensive reach has allowed us to corner over 85% of this market. We continued to dominate the strategic aviation sector with over 50% of total Jet A1 volumes. Petron remained the undisputed overall leader in Industrial Trade with about 43% of the entire market, leading our closest competitor by about 16%.

Our household LPG brand **Gasul** remained the preferred brand for millions of Filipino





homes. Our **Fiesta** brand, meanwhile, continued to show strong performance in the market. Given the strong demand for our LPG products, there was a need to further expand our network of branch stores and exclusive retail outlets for the convenience of our customers. At the end of 2010, Petron **Gasul** and **Fiesta** outlets numbered almost 3,000.

Several industrial **Gasul** accounts utilizing “centralized” LPG systems were also acquired. Centralized LPG systems refer to underground installations that enhance safety and improve services for tenants at establishments. These include malls, hotels, and commercial centers. To serve the growing number of autoLPG users, more **Xtend** facilities were installed at Petron stations. Petron **Gasul** retained its leadership in the LPG sector with over 34% of the market.

There was continuous quality improvement in Petron Lubes and Greases even as new products were developed in line with our thrust to be at par with or exceed global standards. Semi-synthetic gasoline engine oil **Ultron Rallye** was upgraded from API SL to API SM. API SM has more stringent requirements for lubricants in the areas of engine performance and protection as compared to the API SL standard.

Regatta, a high quality outboard motor oil used for water-cooled, two-stroke marine engines, was launched. The product was developed in close collaboration with additive technology experts and is certified by the National Marine Manufacturer’s Association. Another breakthrough was the local development and production of the **Premium Lithium Complex Grease**, a heavy duty, high pressure and temperature grease. **Premium Lithium Complex Grease** passed the highest quality levels in its category and is suitable for various automotive and industrial applications.

Four new **Petron Car Care Centers (PCCC)** were inaugurated in 2010. The PCCCs cater to motorists looking for efficient, but affordable, maintenance and repair services. PCCCs are known to offer services at par with auto dealerships. More Petron Sales Centers, that exclusively offer Petron-branded lubes and specialty products, were accredited. **Petron Motorcycle Centers**, a pioneering concept aimed at a growing market segment, were also established.

All these efforts ultimately increased Petron’s overall market share to nearly 38% in 2010. Petron remained the undisputed oil industry leader despite a more challenging domestic environment.



Blazing New Trails

Given the breadth and scope of Petron's operations, continued growth can be best achieved through greater teamwork and solidarity of its workforce. The success of the operating units is shared by the support divisions, which provide invaluable services to achieve business objectives.



Towards a Common Vision

With several major expansion projects in the pipeline, the company tapped the local and international market to raise fresh capital. In March 2010, the successful issuance of 100 million perpetual preferred shares at an offer price of P100/share was held. The P10 billion shares issue was, at the time, the single largest perpetual preferred shares listing in the history of the Philippine Stock Exchange.

A few months later, Petron issued a landmark P20 billion PHP-denominated Notes payable in U.S. Dollars tapping offshore markets. A total of 90 investors participated in the bond issue with a majority coming from Asian and European markets. This deal enables us to manage our foreign exchange liabilities and broaden our investor base. Petron is proud to be the first Philippine corporation to issue this type of Notes in Asia. Credit Suisse, Deutsche Bank, HSBC, and Standard Chartered were the Joint Lead Managers and Bookrunners for the transaction.

PhilRatings maintained a rating of PRS AAA for Petron's overall capacity to service its maturing obligations within a period of one year. A PRS AAA rating is the highest possible credit score that a Philippine corporation can achieve.

Point of Sale (POS) systems were installed in over 200 service stations in 2010, automating transactions at the forecourt and store level. The POS system facilitates efficient and real-time monitoring of service station sales and inventory. Valuable feedback and information on customer preferences are derived and enable us to further improve our products and services.

Streamlining of the company's procurement processes via SAP SRM continued. Strategic alliances with best-in-class suppliers and contractors were promoted to ensure the correct and timely delivery of essential quality materials for our expansion programs. These programs include, among others, construction of storage facilities, the Refinery Solid Fuel-Fired Boiler project, retail network expansion, long term contracting for CME and marine vessels. Process improvements and negotiations have kept our costs and investments at its optimum level given current market conditions.

In March of 2010, Petron general headquarters was transferred to SMC-Head Office Complex from Petron MegaPlaza. The move marked Petron's further integration with the SMC Group of Companies and fueled more synergies between Petron and SMC on

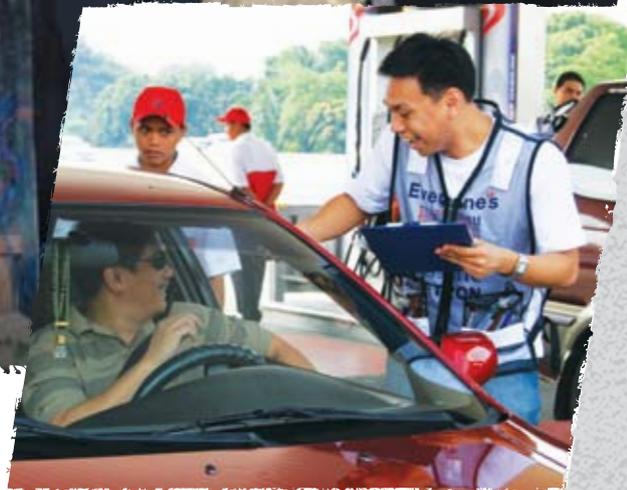


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pse THE PHILIPPINE STOCK EXCHANGE, INC.



The strong market response to Petron's Preferred Shares offering reflects the trust and confidence of the investment community in the viability of the company over the long-term.



top of already existing partnerships. It also facilitated cultural assimilation and an exchange of best business practices.

It was business as usual for the employees. The smooth transition and adoption of the employees to their new environment prevented any disruption in operations. This speaks well of the professionalism and dedication of Petron employees.

Aligned with corporate growth initiatives, 140 employees joined the Petron family. Training and development programs were intensified to equip the workforce with necessary skills to meet the demands of a more competitive environment. These included seminars on managing multiple tasks, negotiation, problem-solving, and decision-making. Customized training programs on leadership and management were conducted to boost the leadership's capability to manage change.

For the 24th consecutive year, Petron employees held the Lakbay Alalay program in April 2010—the largest with nearly a hundred participating service stations nationwide. This advocacy is a way of thanking our customers and assisting them in their travels during the Lenten season. Participating service stations provided motorists with free tire services, under-the-hood checks, and oil and break inspection. Lakbay Alalay is the longest-running motorist assistance program in the country. It is a pioneering public service activity, which has been replicated by other automotive and oil companies.

Our unrelenting drive to persistently hold innovative programs that assist motorists and support the youth highlight our commitment to serve the Filipino beyond their fuel needs.



Our leadership goes beyond profit and business goals. The values that drive our social responsibility initiatives define us as a company and have never been more important in today's economic climate. At Petron, sustainability is non-negotiable. It is rooted in our corporate DNA and is essential to our enduring success.

Growing with Our Communities

For over ten years, we have been spearheading the Bataan Integrated Coastal Management Program (BICMP) in partnership with the Province of Bataan, Bataan Coastal Care Foundation, and the Partnerships in Environmental Management for the Seas of East Asia (PEMSEA). We introduced Integrated Coastal Management (ICM) to the country's number one tourist destination this year through the launch of Boracay Beach Management Program (BBMP). In partnership with SMC, the Municipality of Malay in the Province of Aklan, and the Boracay Foundation, we initiated BBMP, a multi-stakeholder project that uses the global framework of ICM to address pressures caused by multiple marine and coastal usages by locals and tourists alike.

This long-term program is in line with Executive Order No. 533 that adopts ICM as a national strategy to ensure the sustainable development of the country's coastal and marine environment and resources. Furthermore, the *Sangguniang Bayan* of Malay institutionalized the ICM program by enacting a local ordinance.

In Rosario, Cavite, we partnered with its local government, Yes2Life Foundation, Malichi Corporation, and First Rosario Cavite Multi-Purpose Cooperative to launch the Organic Coral REEForestation Project or *Pabahay sa Ilalim ng Dagat*, and donated artificial reefs to the community of Rosario. Made from organic materials, the reef buds will renew the community's coastal environment and in a few weeks' time after their deployment, they will become home to schools of fish and other marine life which will improve the livelihood of the Rosario fisherfolk. The technology behind the artificial reef buds was a winner of the *Panibagong Paraan* World Bank Country Development Marketplace Competition.

Beyond Boracay and Rosario, we also partnered with Pasig City Government and Metro Manila Development Authority (MMDA) to undertake a dredging project to help rehabilitate the Pasig and Marikina Rivers. This new partnership complements the current dredging operations of the Pasig River Rehabilitation Commission (PRRC). The dredging project also helps address the challenges of mitigating the devastating consequences of natural calamities such as Typhoon *Ondoy*, which had impacted greatly on the two cities.



Blazing New Trails



Petron's Tulong Aral program continues to fuel hope for thousands of under privileged students.



We also continued to fuel H.O.P.E. (Helping Overcome Poverty through Education). At the end of 2010, *Tulong Aral ng Petron* had a total of 5,323 scholars enrolled from Grades 1 to 6 in the National Capital Region and Mindanao. In March of 2010, we graduated 852 *Tulong Aral* scholars—four of whom were class valedictorians while 72 received honors.

We continued to support the education of our top *Tulong Aral* graduates through secondary school under the *Tulong Aral* High School Scholarship Program, a partnership with Department of Education (DepEd), Department of Social Welfare and Development (DSWD), and Land Bank of the Philippines. A total of 373 scholars—275 in 3rd year and 98 in 1st year—are receiving scholarships to go to high school in 21 public schools in Metro Manila.

Besides supporting their education, we also promote entrepreneurship through Youth in Entrepreneurship and Leadership Development (YIELD) program. In 2010, 100 third year students of Muntinlupa Business High School (MBHS) spent their summer at Petron service stations in Metro Manila to learn the ropes in operations at the forecourt and back office. Their 240-hour on-the-job training also included the rudiments of food service and business in our locators such as Jollibee, Chowking, Fabricare, and the Petron Treats convenience stores.

We edged nearer to the completion of our partnership with the United States Agency for International Development (USAID) for the construction and repair of classrooms in Region 9, Region 12, and the Autonomous Region of Muslim Mindanao (ARMM). In 2010, Petron built 40 new classrooms and refurbished 245 existing ones. By 2011, this project is expected to have put up and repaired a total of 600 classrooms through a Global Development Alliance (GDA) partnership with the Education Development Center (EDC).

The successes of our CSR activities, however, would not have been possible without Petron employees driven by the spirit of volunteerism and their shared value of *pagmamalasakit*. Over 70% of Petron employees in 2010 shared their time and treasure to join the company's CSR initiatives.



Setting the Bar of Excellence

At the end of the year, our facilities registered a combined 38 million hours without lost time incidents. This impressive achievement was cited by the Department of Labor and Employment - Bureau of Working Conditions (DOLE-BWC). Petron was the only oil company to be recognized with the Safety Milestone (SMILe) Award. This marked the first time that all of Petron's facilities were conferred with 100% compliance by the DOLE-BWC. Twenty-two DOLE-accredited safety practitioners were also recognized. These awards underscored our philosophy of "safety beyond compliance."

For the ninth straight year, Petron was given the prestigious *Reader's Digest* Gold Trusted Brand Award in the Petrol Station category. *Reader's Digest* bestows the award to companies or products selected by Asian consumers as their preferred brand in the market. Petron was selected based on six qualitative criteria: Trustworthiness & Credibility, Quality, Value, Understanding of Customer Needs, Innovation, and Social Responsibility.

Underscoring efforts to improve corporate governance practices, Petron was cited by the Institute of Corporate Directors (ICD) as one of the Best Governed Listed Companies in the Philippines for the fifth consecutive year. The ICD, an international organization that promotes corporate governance practices in line with global standards, applied several criteria including disclosure and transparency and board responsibility.

Also in 2010, Petron's ten-year-old ArtPetron garnered two Anvil Awards of Excellence and an Anvil Award of Merit. The Anvil award is given by the Public Relations Society of the Philippines (PRSP) to recognize the highest level of excellence in the practice of public relations in the country. ArtPetron is our national student art completion that promotes Philippine art, culture, tradition, and values among the youth. To date, ArtPetron has received a total of 20 Anvil Excellence Awards and 10 Anvil Merit Awards since 2001.

Furthermore, ArtPetron was given an Award of Merit in the Special Publications Category of the Communication Skills Division in the Philippine Quill 2010 Awards for the unified look of its Corporate Social Responsibility (CSR) Collaterals. The Philippine Quill Awards recognizes best practices and the highest level of achievement by business communicators in thought leadership, technical skills and sustainable solutions.

These prestigious awards only serve to strengthen our resolve to do better in every area of our business. For us, leadership means being at the forefront of best practices and standards that are recognized locally and abroad.

We continue to be inspired by the various recognitions that we received for our initiatives. Rather than rest on our laurels, these drive us to exceed our performance and the records we have set. The path towards excellence is a never-ending journey.





Board of Directors

Seated in front from left to right

- **Ramon S. Ang**
Chairman / Chief Executive Officer
and Executive Director
- **Eduardo M. Cojuangco, Jr.**
- **Roberto V. Ongpin**

Second row from left to right

- **Estelito P. Mendoza**
- **Reynaldo G. David**
Independent Director
- **Artemio V. Panganiban**
Independent Director
- **Mirzan Mahathir**
- **Ferdinand K. Constantino**
- **Bernardino R. Abes**

Standing from left to right

- **Eric O. Recto**
President / Executive Director
- **Aurora T. Calderon**
- **Romela M. Bengzon**
- **Ron W. Haddock**
- **Virgilio S. Jacinto**
- **Joseph N. Pineda**

Board of Directors' Profiles

Ramon S. Ang, Filipino, 57 years old, is the Chairman & Chief Executive Officer and Executive Director of Petron. He is the Chairman of the Board Executive Committee and Compensation Committee. Currently, he is the Vice Chairman and President & Chief Operating Officer of San Miguel Corporation (SMC). Mr. Ang is also the Chairman of Liberty Telecom Holdings and Vice Chairman of Manila Electric Company (MERALCO). He likewise holds executive and directorship positions in various SMC and Petron subsidiaries.

Eric O. Recto, Filipino, 47 years old, is the President and Executive Director of Petron. He is a member of the Board Executive Committee and the Nomination and Compensation Committees. Apart from being the Chairman and CEO of Petron Foundation, Inc., Mr. Recto holds executive and directorship positions in several Petron subsidiaries. He is a member of the Board of Directors of SMC and MERALCO. He is also the Vice Chairman of Philweb Corporation, Atok-Big Wedge Corporation, and Alphaland Corporation. He is the Vice Chairman and President of ISM Corporation, Top Frontier Investment Corporation, and Q-Tech Alliance Holdings. Previously, Mr. Recto was the Undersecretary of the Department of Finance in charge of both the International Finance Group and the Privatization Office.

Eduardo M. Cojuangco, Jr., Filipino, 75 years old, is a Non-Executive Director of Petron. He is the Chairman and Chief Executive Officer of SMC and Ginebra San Miguel, Inc. Mr. Cojuangco is the Chairman of ECJ & Sons Agricultural Enterprises, Inc.; Eduardo Cojuangco, Jr. Foundation; and San Miguel Purefoods Company, Inc. He is also a Director of MERALCO and Cainaman Farms, Inc. Mr. Cojuangco was formerly a member of the House of Representatives, the Governor of Tarlac, and the Philippine Ambassador Plenipotentiary.

Estelito P. Mendoza, Filipino, 81 years old, is a Non-Executive Director of Petron. He is a member of the Nomination and Audit Committees. He heads the law firm Estelito P. Mendoza and Associates and holds directorships in SMC; Philippine National Bank; Philippine Airlines, Inc.; and Prestige Travel, Inc. He also served the Philippine Government as former Solicitor General, Minister of Justice, member of the Batasang Pambansa, and Governor of the Province of Pampanga.

Roberto V. Ongpin, Filipino, 74 years old, is a Non- Executive Director of Petron. He is a member of the Executive and Compensation Committees. He is currently the Chairman of Philweb Corporation, ISM Communications Corporation, Alphaland Corporation, Atok-Big Wedge Company, Acentic GmbH (Germany), and Developing Countries Investment Corporation. He is also a Director of SMC, Ginebra San Miguel, Inc., and Top Frontier Investment Holdings, Inc. Mr. Ongpin was formerly the Minister of Trade and Industry.

Bernardino R. Abes, Filipino, 80 years old, has been a Non-Executive Director of Petron since July 2001. He is formerly the Chairman of the Government Service Insurance System and the Social Security Commission.

Aurora T. Calderon, Filipino, 56 years old, is a Non-Executive Director and a member of the Compensation and Audit Committees. She is also an alternate member of the Executive Committee. Ms. Calderon is the Senior Vice President and Senior Executive Assistant to the President and COO of SMC. She holds directorship positions in various SMC and Petron subsidiaries.

Mirzan Mahathir, Malaysian, 52 years old, is a Non-Executive Director of Petron. He has been the Executive Chairman and CEO of Crescent Capital Sdn. Bhd. in Kuala Lumpur since 2007. He has held directorship positions in several Malaysian and foreign companies.

Romela M. Bengzon, Filipino, 50 years old, is a Non-Executive Director of Petron. She is a Director of Petron Marketing Corporation and the Managing Partner of the Bengzon Law Firm. She is presently a member of the Integrated Bar of the Philippines; American Bar Association; International Bar Association; New York State Attorney; and the Australian-New Zealand Chamber of Commerce. She served the Philippine Government under the Department of Trade and Industry as Honorary Trade Ambassador to the European Union; Chairperson of the Committee on Economic Liberalization; and Deputy Secretary General of the Consultative Commission.

Ferdinand K. Constantino, Filipino, 59 years old, is a Non-Executive Director of Petron. He has been a Director of SMC since 2010. He is currently the Senior Vice President & Chief Finance Officer and Treasurer of SMC. He holds directorship positions in several SMC subsidiaries and is the President of Anchor Insurance Brokerage Corporation.

Virgilio S. Jacinto, Filipino, 54 years old, has been a Non-Executive Director of Petron since 2010. He is the Vice President and First Deputy General Counsel of SMC. Mr. Jacinto is also an Associate Professor of the University of the Philippines College of Law.

Ron W. Haddock, American, 70 years old, is a Non-Executive Director of Petron since December 2008. He is an alternate member of the Executive Committee. He has been the Chairman of the Board of AEI Services, L.L.C. since 2006. His other current positions include Chairman of Safety-Kleen Systems, Inc. and Rubicon Offshore International; and Board Member of Alon Energy USA and Trinity Industries, Inc.

Joseph N. Pineda, Filipino, 47 years old, is a Non-Executive Director of Petron. He is currently the Senior Vice President and Deputy Chief Finance Officer of SMC. He has been with SMC since 2005, starting off as Vice President for Special Projects. He holds several directorships in the SMC Group of Companies.

Reynaldo G. David, Filipino, 68 years old, has been an Independent Director since May 2009. He is currently the Chairman of the Audit and Nomination Committees and a member of the Compensation Committee. He was the 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.

Artemio V. Panganiban, Filipino, 74 years old, is an Independent Director and a member of the Audit Committee. He sits as Independent Director of various publicly-listed companies. He is a columnist of the Philippine Daily Inquirer and an adviser and consultant in several business, civic, and religious organizations. He is an author of several books and has received various awards for his numerous accomplishments. He is the former Chief Justice of the Supreme Court of the Philippines.

Management Committee



From top

- **Ramon S. Ang**
Chairman & Chief Executive Officer
- **Eric O. Recto**
President
- **Lubin B. Nepomuceno**
Senior Vice President &
General Manager
- **Emmanuel E. Eraña**
Senior Vice President &
Chief Finance Officer
- **Freddie P. Yumang**
Vice President, Refinery
- **Rowena O. Cortez**
Vice President, Supply & Operations





From top

- **Tomas S. Cadiz**
Vice President, National Sales
- **Susan Y. Yu**
Vice President, Procurement
- **Cristina M. Menorca**
Vice President, Human Resources
- **Albert S. Sarte**
Vice President, Treasurers
- **Efren P. Gabrillo**
Asst. Vice President, Controllers
- **Joel Angelo C. Cruz**
Corporate Secretary & General Counsel



Corporate Governance

Petron's Board of Directors is composed of fifteen (15) members, two (2) of whom are Independent Directors. Currently, only two (2) of the members are Executive Directors, occupying the positions of the Chairman and the President of the company. The Board is responsible for overseeing management of the company. The members of the Board are carefully selected to ensure Petron's continued competitiveness in a manner consistent with its fiduciary responsibilities. The Board is further composed of the following committees, namely: the Nomination Committee, which handles the selection and pre-screening of nominations for directors; the Compensation Committee, which reviews and modifies, among others, the salary structures of officers holding position of Vice President or higher; the Audit Committee, which is in charge of reviewing the Company's internal reports, rules and regulations that may impact on Petron's financial statements; and the Executive Committee, which allows its members to act on matters that otherwise require the immediate action of the Board.

In compliance with SEC Memo Circular No. 2, Series of 2002, Petron established its Corporate Governance Manual which took effect on January 1, 2003. The Manual recognizes and upholds the rights of every stockholder and reflects the key internal control features necessary for good corporate governance, such as the duties and responsibilities of the Board of Directors and Committees; active participation of Management in the operation of the Company; organizational and procedural controls that are supported by an effective management information and risk management reporting systems; and independent audit measures to monitor the Corporation's governance, operations and information systems. Pursuant to SEC Memorandum Circular No. 6, Series of 2009 (Revised Code of Corporation Governance), revisions were made to the Manual to further raise shareholders' confidence by promoting sound business practices and

transparency in the conduct of its affairs. The Executive Committee approved the Revised Petron Code of Corporate Governance Manual on July 29, 2010, which was duly confirmed and ratified by the Board on October 21, 2010. Further revisions to the Manual were also undertaken and approved by the Board on March 2, 2011.

A. Stockholders' Rights

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

B. Board of Directors

Upon election, Petron Directors, including the Officers and employees, are made to sign Conflict-of-Interest & Undertaking Statements, disclosing their respective business interests, to ensure that these are not in competition with the business of Petron. To further strengthen their understanding and appreciation, they are also given the Company's Code of Conduct & Ethical Business Policy at the start of their occupancy. Per By-Laws, the Corporate Secretary informs the Directors and Officers of the schedule of board meetings beforehand and board materials are released and distributed within a reasonable

time before every meeting. All Directors, officers and senior managers are required to attend basic corporate governance seminar at SEC-accredited providers immediately upon assuming office.

C. Disclosure & Transparency

To instill a stable and transparent process of conducting its business and at the same time identify accountability at all times, a system of approvals is in place whereby only authorized officer(s) may approve a particular business transaction and only up to the authorized amount. Transactions with amounts exceeding the joint approval limit of the Chairman and the President are elevated to the Board for approval.

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

For 2007, Petron was adjudged as among the top 20 publicly-listed companies (PLCs) in good corporate governance out of the 138 publicly-listed companies. The corporate governance rating was undertaken by the ICD in collaboration with the Securities and Exchange Commission,

Philippine Stock Exchange and the Ateneo Law School. In January 2009, the company was cited by the Management Association of the Philippines as one of the top 20 companies with the best annual report.

From 2009 to 2011, the Company has consistently landed in the Silver Category of the Corporate Governance Scorecard.

D. Monitoring Compliance

To ensure the compliance of the Corporate Governance Manual, the Board appoints a Compliance Officer who is tasked to monitor compliance by the directors and management of the tenets provided under the Manual and report to the SEC any incident/s violating the same. During the end of each year, the Chairman and the President evaluate the performance of the directors and vice versa. Directors who are members of board committees also rate the performance of their respective committees. The Company also accomplishes the Corporate Governance Scorecard which it submits to the ICD on a yearly basis.

Aside from the Corporate Governance Manual, several other manuals have been instituted by Management to establish company policies and guide the employees in carrying out their respective functions and duties, to address business operations and set contracting and bidding procedures, and to instill business ethics, office decorum and employee discipline.

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

With the election of Mr. Reynaldo G. David and former Chief Justice Artemio V. Panganiban as Independent Directors to the Petron Board;

Corporate Governance

the election of members and alternate members, in proper cases, of the Audit, Compensation, Nomination and Executive Committees; the conduct of regular quarterly board meetings, special board meetings and board committee meetings and the faithful attendance of and proper discharge of duties and responsibilities of Directors at such meetings; the conduct of training/seminar for Corporate Governance for incoming Directors and Officers; and strict adherence to national and local laws pertaining

to its business operations, including applicable accounting standards and disclosure requirements, the company is in compliance with its Corporate Governance Manual.

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

List of Directors								
Directors	Board Meeting dates							Attended Basic CG Orientation
	Mar. 29	Apr. 29	Jul. 29	Jul. 29	Jul. 29	Oct. 21	Dec. 1	
Ramon S. Ang	•	•	•	•	•	•	•	•
Eric O. Recto	•	•	•	•	•	•	•	•
Eduardo M. Cojuangco, Jr.		•	•	•	•	•		•
Estelito P. Mendoza	•		•	•	•	•	•	•
Roberto V. Ongpin		•	•	•	•	•	•	•
Bernardino R. Abes	•	•	•	•	•	•	•	•
Seumas James S. Dawes*				-	-	-	•	•
Ron W. Haddock	•	•	•	•	•	•		•
Angelico T. Salud**	•	•	•	•	•	-	-	•
Reynaldo G. David	•	•	•	•	•	•	•	•
Aurora T. Calderon	-	-	-	-	-	•	•	•
Romela M. Bengzon	-	-	-	-	-	•	•	•
Mirzan Mahathir	-	-	-	-	-		•	•
Ferdinand K. Constantino	-	-	-	-	-	•	•	•
Virgilio S. Jacinto	-	-	-	-	-	•	-	•
Michael Moody***	-	-	-				-	•
Artemio V. Panganiban	-	-	-	-	-	•	•	•
Joseph N. Pineda	-	-	-	-	-	-	•	•

* Replaced by Mr. Michael Moody at the July 29, 2010 Stockholders' Meeting.

** Replaced by Retired Chief Justice Artemio V. Panganiban.

*** Resigned and subsequently replaced by Mr. Joseph Pineda.

Audit Committee Report

The Board of Directors
Petron Corporation

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

In the performance of our responsibilities, we report that in 2010:

- We reviewed and discussed with Controllers management the annual financial statement of Petron Corporation and Subsidiaries and endorsed these for approval by the Board.
- The Audit Committee endorsed and the stockholders approved the appointment of Manabat Sanagustin/KPMG as the company's new independent auditors for 2010. Accounting rules require the consolidation of results of operations and account balances of Petron with San Miguel Corporation after the latter exercised its full ownership option in Petron. Having a common external auditor will facilitate coordination among auditors of the parent company and its subsidiaries as well as expedite consolidation.
- The independent auditors, Manabat Sanagustin/KPMG, presented to and discussed with the Committee the scope and timing of their annual audit plan, audit methodology and focus areas related to their review of the financial statements.
- The Audit Committee reviewed with Manabat Sanagustin/KPMG, the external auditors' audit observations and recommendations on the Company's internal controls and management's response to the issues raised.
- The Committee reviewed with the Internal Audit Head and approved the annual internal audit plan and satisfied itself as to the independence of the internal audit function.
- We reviewed on a quarterly basis Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period.

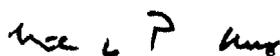
All the four members of the Audit Committee are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2010.



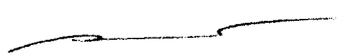
Reynaldo G. David
Chairperson
Independent Director



Aurora T. Calderon
Director



Estelito P. Mendoza
Director



Ferdinand K. Constantino
Director

Financial Highlights

Net Sales

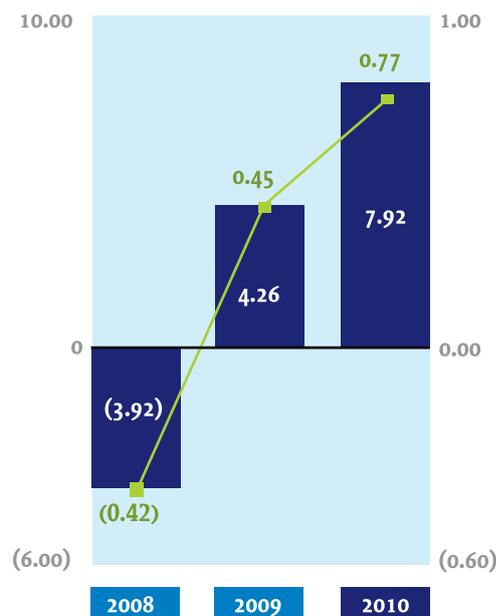
(in Billions)



Net Income and EPS

Net Income (in Billions)

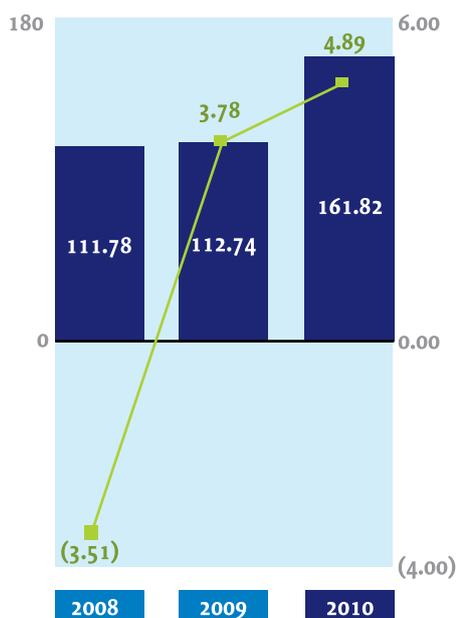
Earnings per Share (in Pesos)



Amounts in Million Pesos (Except earnings per share)			
	2008	2009	2010
For the year:			
Net Sales	267,676	176,531	229,094
Net income (loss)	(3,920)	4,259	7,924
EBITDA	3,260	13,392	15,969
Earnings per share	(0.42)	0.45	0.77
At year end:			
Total assets	111,775	112,742	161,816
Total equity	32,880	37,184	53,344
Net debt	51,403	48,651	42,875
Ratios:			
Return on sales (%)	(1.46)	2.41	3.46
Return on assets (%)	(3.51)	3.78	4.89
Return on equity (%)	(11.92)	11.45	14.85
Current ratio	1.1	1.3	1.6
Debt-equity	2.4	2.0	2.0

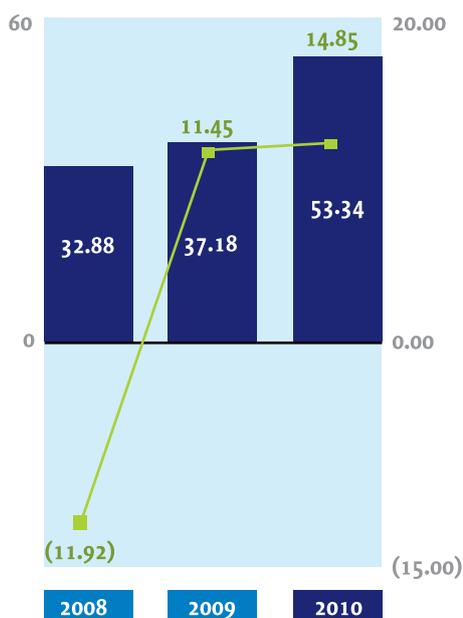
Total Assets and ROA

■ Total Assets (in Billions)
■ Return on Assets (in Percent)



Total Equity and ROE

■ Total Equity (in Billions)
■ Return on Equity (in Percent)



Record profit

2010 was an extraordinary year for Petron. Net Income soared to P7.92 billion from the P4.26 billion profit realized in 2009. Consequently, earnings per share improved significantly to P0.77 this year from P0.45 in 2009.

Higher profit was due mainly to healthier margins that were further enhanced by the increase in sales volume, lower financing costs, and gains on dollar-denominated transactions.

Total volume sold grew by 9% to 48.29 million barrels (MMB) largely due to higher diesel and petrochemicals. Petrochemical sales volume hit 3.27 MMB in 2010, a 73% improvement compared with 1.89 MMB last year as it marked the first full year of operations of the company's Benzene, Toluene and Mixed Xylene (BTX) unit which was commissioned in April 2009. Domestic sales volume also increased by nearly 6% to 43.11 MMB from 40.73 MMB a year before attributed to increased economic activity, aggressive solicitation of new accounts and expansion of Petron's service station network.

Net sales surpassed last year's level by 30% to P229.09 billion primarily due to the surge in price.

Meanwhile, net financing costs and other charges dropped significantly to P2.21 billion from P3.45 billion charges incurred last year primarily due to higher interest income. Translation gains of the company's foreign-denominated transactions and net earnings from commodity hedging activities further boosted the company's income before tax.

Financial Highlights

Robust financial condition

Petron ended 2010 with total assets of P 161.82 billion showing 44% growth from end December 2009 level of P 112.74 billion. Increase in assets was traceable to higher cash and cash equivalents due to the proceeds of the P 20.00 billion Peso Global Bond and the US\$355 million NORD loan partly offset by the decline in accounts receivables.

Given the available cash to pay-off maturing obligations, total short-term loans and liabilities to suppliers dropped. On the other hand, long-term borrowings were notably higher at P 54.40 billion versus P 18.89 billion last year. Total equity surged by 43% to P 53.34 billion contributed mainly by the P 10.00 billion issuance of preferred shares in March along with P 7.92 billion net income recorded during the year. This was partly reduced by the P 1.65 billion dividends on common and preferred shares.

With the company's growth and better profitability, the company was able to comply with the covenants of its loan agreements. Current ratio was better at 1.6 compared to 1.3 level in 2009, while Debt to equity ratio was maintained at 2.0.

Better cash flows

	In Million Pesos		
	2008	2009	2010
Beginning cash balance	9,732	12,827	12,985
Operating cash flows	(3,405)	4,652	17,453
Investing cash flows	(10,553)	(1,693)	(21,241)
Financing cash flows	17,007	(2,736)	34,598
Effects of exchange rate changes	46	(65)	189
Ending cash balance	12,827	12,985	43,984

With a stronger EBITDA and lower working capital, net cash inflows from operating activities increased significantly to P 17.45 billion from P 4.65 billion a year earlier.

On the other hand, net cash outflows used in investing activities was largely due to advances to Petron Employees Retirement Fund for some investment opportunities.

Meanwhile, internally generated funds were augmented by the availment of long-term loans and the issuances of bonds and preferred shares. Funds available from proceeds of loans and preferred shares were used to pay-off partly the company's short-term debt and left the company with net financing cash inflows of P 34.60 billion.

The company ended the year with a healthier cash balance of P 43.98 billion.

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Report of Independent Auditors

The Board of Directors and Stockholders
Petron Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Petron Corporation and Subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2010 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Petron Corporation and Subsidiaries as at December 31, 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The consolidated financial statements of Petron Corporation and Subsidiaries as at and for the years ended December 31, 2009 and 2008, prior to the restatements as discussed in Note 39 to the consolidated financial statements, were audited by other auditors whose report thereon dated March 29, 2010, expressed an unqualified opinion on those statements. As part of our audit of the 2010 consolidated financial statements, we also audited the adjustments that were applied to the 2009 and 2008 consolidated financial statements to reflect the change in accounting policy as described in Note 39. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2009 and 2008 consolidated financial statements of Petron Corporation and Subsidiaries other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2009 and 2008 consolidated financial statements taken as a whole.

MANABAT SANAGUSTIN CO. & CPAs



Jorge Ma. S. Sanagustin
Partner
CPA License No. 0030399
SEC Accreditation No. 0026-AR-2
Tax Identification No. 124-282-616
BIR Accreditation No. 08-001987-7-2010
Issued June 30, 2010; Valid until June 29, 2013
PTR No. 2639631MB
Issued January 3, 2011 at Makati City

March 14, 2011
Makati City, Metro Manila

Statement of Management's Responsibility for Financial Statements

The management of Petron Corporation is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2010, 2009 and 2008. The consolidated financial statements have been prepared in conformity with the Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. Management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls, and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

Manabat Sanagustin & Co., CPAs, the independent auditors appointed by the stockholders, have examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and have expressed their opinion on the fairness of presentation upon completion of such examination, in their report to the Board of Directors and stockholders.



RAMON S. ANG
Chairman and Chief Executive Officer



ERIC O. RECTO
President



EMMANUEL E. ERAÑA
Chief Finance Officer

Petron Corporation and Subsidiaries

Consolidated Statement of Financial Position

December 31, 2010

(With Comparative Figures for 2009)

(Amounts in Million Pesos)

			2009	
	Note	2010	December 31 (As Restated - Note 39)	January 1 (As Restated - Note 39)
ASSETS				
Current Assets				
Cash and cash equivalents	6	P43,984	P12,985	P12,827
Financial assets at fair value through profit or loss	7	227	208	216
Available-for-sale financial assets	8	178	170	331
Trade and other receivables - net	9	24,266	29,696	16,875
Inventories	10	28,145	28,169	30,792
Other current assets	14	4,286	4,428	11,922
		101,086	75,656	72,963
Assets held for sale	5	823	-	-
Total Current Assets		101,909	75,656	72,963
Noncurrent Assets				
Available-for-sale financial assets	8	983	1,185	351
Property, plant and equipment - net	12	34,957	34,784	36,428
Investments in associates	11	804	-	-
Investment properties - net	13	119	232	246
Deferred tax assets	26	28	7	895
Other noncurrent assets - net	14	23,016	878	892
Total Noncurrent Assets		59,907	37,086	38,812
		P161,816	P112,742	P111,775
LIABILITIES AND EQUITY				
Current Liabilities				
Short-term loans	15	P32,457	P42,744	P53,979
Liabilities for crude oil and petroleum product importation		11,194	7,529	8,907
Trade and other payables	16	6,744	4,916	4,562
Derivative liabilities	34	30	1	-
Income tax payable		14	10	22
Current portion of long-term debt - net	17	11,517	1,296	1,263
Total Current Liabilities		61,956	56,496	68,733
Noncurrent Liabilities				
Long-term debt - net of current portion	17	P42,885	P17,596	P8,988
Retirement benefits liability	29	249	50	-
Deferred tax liabilities	26	1,958	364	8
Asset retirement obligation	18	815	541	706
Other noncurrent liabilities	19	609	511	460
Total Noncurrent Liabilities		46,516	19,062	10,162
Total Liabilities		108,472	75,558	78,895
Equity Attributable to Equity Holders of the Parent Company				
Capital stock	20	9,475	9,375	9,375
Additional paid-in capital		9,764	-	-
Retained earnings	20	33,748	27,506	23,266
Other reserves	20	83	59	14
Total Equity Attributable to Equity Holders of the Parent Company		53,070	36,940	32,655
Non-controlling interest		274	244	225
Total Equity		53,344	37,184	32,880
		P161,816	P112,742	P111,775

See Notes to the Consolidated Financial Statements.

Petron Corporation and Subsidiaries
Consolidated Statement of Income

December 31, 2010
 (With Comparative Figures for 2009 and 2008)
 (Amounts in Million Pesos, Except Per Share Amounts)

			2009 (As Restated - Note 39)	2008 As Restated - Note 39)
	Note	2010		
SALES	36	P229,094	P176,531	P267,676
COST OF GOODS SOLD	21	209,280	161,583	264,306
GROSS PROFIT		19,814	14,948	3,370
SELLING AND ADMINISTRATIVE EXPENSES	22	(7,303)	(5,748)	(5,222)
INTEREST EXPENSE	25	(4,309)	(4,251)	(4,180)
INTEREST INCOME	25	839	205	354
SHARE IN NET LOSS OF AN ASSOCIATE	11	(151)	-	-
OTHER INCOME (EXPENSES)	25	1,409	597	(115)
		(9,515)	(9,197)	(9,163)
INCOME (LOSS) FROM OPERATIONS		10,299	5,751	(5,793)
INCOME TAX EXPENSE (BENEFIT)	26, 35	2,375	1,492	(1,873)
NET INCOME (LOSS)		P7,924	P4,259	(P3,920)
Attributable to:				
Equity holders of the parent company	31	P7,894	P4,240	(P3,978)
Non-controlling interest		30	19	58
		P7,924	P4,259	(P3,920)
BASIC/DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	31	P0.77	P0.45	(P0.42)

See Notes to the Consolidated Financial Statements.

Petron Corporation and Subsidiaries

Consolidated Statement of Comprehensive Income

For the Year Ended December 31, 2010
 (With Comparative Figures for 2009 and 2008)
 (Amounts in Million Pesos)

	<i>Note</i>	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
NET INCOME (LOSS)		P7,924	P4,259	(P3,920)
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized fair value gains (losses) on available-for-sale financial assets (net of tax effects of P10, P14 and (P2) in 2010, 2009 and 2008, respectively)	8, 20	22	34	(3)
Exchange difference in translating foreign operations	20	2	11	6
OTHER COMPREHENSIVE INCOME FOR THE YEAR - NET OF TAX		24	45	3
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		P7,948	P4,304	(P3,917)
Attributable to:				
Equity holders of the parent company		P7,918	P4,285	(P3,975)
Non-controlling interest		30	19	58
		P7,948	P4,304	(P3,917)

See Notes to the Consolidated Financial Statements.

Petron Corporation and Subsidiaries

Consolidated Statement of Changes in Equity

For the year ended December 31, 2010

(With Comparative Figures for 2009 and 2008)

(Amounts in Million Pesos)

	Equity Attributable to Equity Holders of the Parent Company								
	Note	Capital Stock	Additional paid-in capital	Retained Earnings		Other Reserves	Total	Non-controlling Interest	Total Equity
				Appropriated	Unappropriated				
As of January 1, 2010	20	P9,375	P -	P15,492	P12,014	P59	P36,940	P244	P37,184
Unrealized fair value gain on available-for-sale financial assets		-	-	-	-	22	-	-	22
Exchange difference in translating foreign operations		-	-	-	-	2	-	-	2
Other comprehensive income		-	-	-	-	24	24	-	24
Net income for the year		-	-	-	7,894	-	7,894	30	7,924
Total comprehensive income for the year		-	-	-	7,894	24	7,918	30	7,948
Appropriation for capital projects	20	-	-	62	(62)	-	-	-	-
Cash dividends	20	-	-	-	(1,652)	-	(1,652)	-	(1,652)
Issuance of shares	20	100	9,764	-	-	-	9,864	-	9,864
As of December 31, 2010		P9,475	P9,764	P15,554	P18,194	P83	P53,070	P274	P53,344
As of January 1, 2009		P9,375	P -	P23,920	(P654)	P14	P32,655	P225	P32,880
Unrealized fair value gain on available-for-sale financial assets		-	-	-	-	34	-	-	34
Exchange difference in translating foreign operations		-	-	-	-	11	-	-	11
Total comprehensive income		-	-	-	-	45	45	-	45
Net income for the year		-	-	-	4,240	-	4,240	19	4,259
Total comprehensive income for the year		-	-	-	4,240	45	4,285	19	4,304
Reversal of appropriation for the capital projects	20	-	-	(8,428)	8,428	-	-	-	-
As of December 31, 2009 (As Restated)		P9,375	P -	P15,492	P12,014	P59	P36,940	P244	P37,184
As of January 1, 2008 (As previously stated)		P9,375	P -	P21,172	P7,520	(P412)	P37,655	P133	P37,788
Prior period adjustments		-	-	-	(510)	423	(87)	-	(87)
As restated		9,375	-	21,172	7,010	11	37,568	133	37,701
Unrealized fair value loss on available-for-sale financial assets		-	-	-	-	(3)	(3)	-	(3)
Exchange difference in translating foreign operations		-	-	-	-	6	6	-	6
Total comprehensive income		-	-	-	-	3	3	-	3
Net loss for the year		-	-	-	(3,978)	-	(3,978)	58	(3,920)
Total comprehensive loss for the year		-	-	-	(3,978)	3	(3,975)	58	(3,917)
Appropriation for capital projects		-	-	2,748	(2,748)	-	-	-	-
Cash dividends		-	-	-	(938)	-	(938)	-	(938)
Issuance of shares		-	-	-	-	-	-	34	34
As of December 31, 2008 (As Restated)	39	P9,375	P -	P23,920	(P654)	P14	P32,655	P225	P32,880

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2010
(With Comparative Figures for 2009 and 2008)
(Amounts in Million Pesos)

	Note	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		P10,299	P5,751	(P5,793)
Adjustments for:				
Share in net loss of an associate	11	151	-	-
Retirement expense	29	197	317	118
Interest expense	25	4,309	4,251	4,180
Depreciation and amortization	24	3,540	3,588	3,243
Interest income	25	(839)	(205)	(354)
Unrealized foreign exchange losses (gains) - net		(1,053)	66	(40)
Other loss (gain)		(76)	(26)	(15)
Operating income before working capital changes		16,528	13,742	1,339
Changes in noncash assets, certain current				
liabilities and others	32	4,123	(4,902)	(651)
Interest paid		(3,897)	(4,311)	(3,830)
Income taxes paid		(108)	(91)	(616)
Interest received		807	214	353
Net cash flows provided by (used in) operating activities		17,453	4,652	(3,405)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to (including disposals):				
Property, plant and equipment	12	(4,417)	(1,928)	(5,534)
Investment properties	13	-	-	(52)
Decrease (increase) in:				
Other receivables		6,087	1,135	(4,522)
Other noncurrent assets		939	(241)	(396)
Reductions from (additions to):				
Financial assets at fair value through profit or loss		40	14	-
Long term investments and advances		(24,084)	-	-
Available-for-sale financial assets		194	(673)	(49)
Net cash flows used in investing activities		(21,241)	(1,693)	(10,553)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans		P204,941	P166,214	P142,650
Payments of:				
Loans		(178,913)	(168,836)	(125,045)
Cash dividends	20	(1,628)	-	(924)
Issuance of preferred stock		9,864	-	-
Increase (decrease) in other noncurrent liabilities		334	(114)	326
Net cash flows provided by (used in) financing activities		34,598	(2,736)	17,007
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		189	(65)	46
NET INCREASE IN CASH AND CASH EQUIVALENTS		30,999	158	3,095
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		12,985	12,827	9,732
CASH AND CASH EQUIVALENTS AT END OF YEAR		P43,984	P12,985	P12,827

See Notes to the Consolidated Financial Statements.

Notes to Consolidated Financial Statements

December 31, 2010

(With Comparative Figures for 2009 and 2008)

(Amounts in Million Pesos, Except Par Value, Number of Shares and Per Share Amounts, Exchange Rates and Commodity Volumes)

1. Reporting Entity

Petron Corporation (the "Parent Company" or "Petron") was incorporated under the laws of the Republic of the Philippines and is registered with the Philippine Securities and Exchange Commission (SEC) on December 15, 1966. The consolidated financial statements as at and for the year ended December 31, 2010 comprise of the financial statements of Petron Corporation and Subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and jointly controlled entity. Petron is the largest oil refining and marketing company in the Philippines supplying nearly 40% of the country's fuel requirements. Petron's vision is to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

Petron's shares of stock are listed for trading at the Philippine Stock Exchange (PSE). SEA Refinery Holdings B.V. (SEA BV), a company incorporated in The Netherlands and owned by funds managed by the Ashmore Group, was Petron's parent company as of December 31, 2008 and 2009.

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

On February 27, 2009, the BOD approved the amendment of Petron's Articles of Incorporation to include the generation and sale of electric power in its primary purpose. The objective is principally to lower the refinery power cost thru self-generation and, in the event there is excess power, to sell the same to third parties.

In connection with the inclusion of the generation and sale of electric power in its primary purpose, Petron received from the Department of Energy the agency's endorsement dated January 15, 2010 of the corresponding amendment of the Parent Company's Articles of Incorporation. Petron submitted all the requirements to SEC in February 2010.

On April 29, 2010, the BOD endorsed the amendment of Petron's Articles of Incorporation and By-Laws increasing the number of directors from ten (10) to fifteen (15) and quorum from six (6) to eight (8). The same was approved by the stockholders during their annual meeting on July 12, 2010. The amendment was approved by the SEC on August 24, 2010.

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

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

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

On December 15, 2010, SMC exercised its option to acquire the remaining 60% of SRC from SEA BV pursuant to the option agreement. With the exercise of the option, SMC beneficially owns approximately 68% of the outstanding and issued shares of stock of Petron. As such, on that date, SMC obtained control of SRC and Petron.

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

The accompanying consolidated financial statements for the year ended December 31, 2010 (including comparatives for the years ended December 31, 2009 and 2008) were approved and authorized for issue by the BOD on March 14, 2011.

2. Basis of Preparation

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets, and derivative financial instruments, which are measured at fair value.

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All values are rounded off to the nearest million (P000,000), except when otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. These subsidiaries are:

Name of Subsidiary	Percentage of Ownership		Country of Incorporation
	2010	2009	
Overseas Ventures Insurance Corporation (Ovincor)	100.00	100.00	Bermuda
Petrogen Insurance Corporation (Petrogen)	100.00	100.00	Philippines
Petron Freeport Corporation (PFC)	100.00	100.00	Philippines
Petron Singapore Trading Pte., Ltd. (PSTPL)	100.00	-	Singapore
Petron Marketing Corporation (PMC)	100.00	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiary	40.00	40.00	Philippines

On May 13, 2010, the Parent Company incorporated PSTPL in Singapore. PSTPL has an initial capitalization of Singapore Dollar 1 million and will handle crude, ethanol, catalysts and additives procurement, crude vessel chartering and commodity risk management. PSTPL started commercial operations on July 19, 2010.

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The consolidated financial statements are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented in the consolidated statement of financial position, separately from equity attributable to equity holders of the Parent Company.

Non-controlling interests represent the interests not held by the Group in NVRC.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group, except for the changes in accounting policies as explained below.

Certain comparative amounts have been reclassified to conform to the current year's presentation (Note 39).

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The FRSC approved the adoption of a number of new or revised standards, amendments to standards, and interpretations [based on IFRIC Interpretations] as part of PFRSs.

Adopted Effective 2010

The Group has adopted the following PFRSs starting January 1, 2010:

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items, assessing hedge effectiveness, and designation of financial items as hedged items. The amendments are effective for annual periods beginning on or after July 1, 2009. The adoption of these amendments to standards did not have a material effect on the consolidated financial statements.

- *Improvements to PFRSs 2008* - Amendments to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of PFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary. Disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. The amendments are effective for annual periods beginning on or after July 1, 2009. The new criteria discussed in the amendments to PFRS 5 was taken into consideration when the Group determined its assets held for sale and discontinued operations (Note 5).
- Amendments to PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions*, clarify the scope of PFRS 2, that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled; and the interaction of PFRS 2 and other standards, that in PFRS 2, a "group" has the same meaning as in PAS 27, *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2010. The adoption of these amendments to standards did not have a material effect on the consolidated financial statements.
- *Improvements to PFRSs 2009*, contain 15 amendments to 12 standards. The improvements are generally effective for annual periods beginning on or after January 1, 2010. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the consolidated financial statements of the Group:
 - PAS 1, *Presentation of Financial Statements*. The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments.
 - PAS 7, *Statement of Cash Flows*. The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.
 - PAS 17, *Leases*. The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 - 13 of PAS 17, taking account of the fact that land normally has an indefinite economic life.
 - PAS 36, *Impairment of Assets*. The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in PFRS 8 before applying the aggregation criteria of PFRS 8.
 - PAS 38, *Intangible Assets*. The amendments clarify that: (i) an intangible asset that is separable only together with a related contract, identifiable asset or liability is recognized separately from goodwill together with the related item; and (ii) complementary intangible assets with similar useful lives may be recognized as a single asset. The amendments also describe valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination for which no active market exists.
 - PAS 39, *Financial Instruments: Recognition & Measurement*. The amendments provide: (i) additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; (ii) clarify that the scope exemption in PAS 39 paragraph 2(g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and (iii) clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss.
 - PFRS 2, *Share-Based Payment* and PFRS 3, *Business Combinations* (Revised 2008). The amendments clarify that business combinations as defined in PFRS 3 (2008) are outside the scope of PFRS 2, notwithstanding that they may be outside the scope of PFRS 3 (2008). Therefore business combinations among entities under common control and the contribution of a business upon the formation of a joint venture will not be accounted for under PFRS 2.
 - PFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*. The amendments clarify that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in PFRS 5.
 - PFRS 8, *Operating Segments*. The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*. The IASB amended the scope of IFRIC 9 so that embedded derivatives in contracts acquired in business combinations as defined in PFRS 3 (2008), joint venture formations and common control transactions remain outside the scope of IFRIC 9.
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*. The amendments remove the restriction that prevented a hedging instrument from being held by a foreign operation that itself is being hedged.
- Philippine Interpretation of IFRIC 17, *Distributions of Non-cash Assets to Owners*, provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed. The interpretation is effective for annual periods beginning on or after July 1, 2009. The adoption of this Philippine Interpretations of IFRIC did not have a material effect on the consolidated financial statements.

Additional disclosures required by the revised standards and improvements were included in the consolidated financial statements, where applicable.

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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

To be Adopted on January 1, 2011

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.
- *Revised PAS 24, Related Party Disclosures (2009)*, amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.
- *Improvements to PFRSs 2010* contain 11 amendments to 6 standards and 1 interpretation. The amendments are generally effective for annual periods beginning on or after January 1, 2011. The following are the said improvements or amendments to PFRSs which the Group did not early adopt. None of these is expected to have a significant effect on the consolidated financial statements of the Group.
 - *PAS 1, Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted.
 - *PAS 27, Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interest in Joint Ventures* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted.
 - *PAS 34, Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.
 - *PFRS 1, First-time Adoption of PFRSs*. The amendments: (i) clarify that PAS 8 is not applicable to changes in accounting policies occurring during the period covered by an entity's first PFRS financial statements; (ii) introduce guidance for entities that publish interim financial information under PAS 34, *Interim Financial Reporting* and change

either their accounting policies or use of the PFRS 1 exemptions during the period covered by their first PFRS financial statements; (iii) extend the scope of paragraph D8 of PFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first PFRS financial statements; and (iv) introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to PFRSs for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

- PFRS 3, *Business Combinations*. The amendments: (i) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (ii) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and (iii) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. These amendments are effective for annual periods beginning on or after July 1, 2010. Early application is permitted and is required to be disclosed.
- PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. These amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.

To be Adopted on January 1, 2012

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011. Earlier application is permitted. Entities are not required to provide the disclosures for any period that begins prior to July 1, 2011.
- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, "off plan"; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and the timing of revenue recognition. The interpretation is effective for annual periods beginning on or after January 1, 2012.

To be Adopted on January 1, 2013

- PFRS 9, *Financial Instruments* (2009) was issued as the first phase of the PAS 39 replacement project. The chapters of the standard released in 2009 only related to the classification and measurement of financial assets. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. In October 2010, a new version of PFRS 9 *Financial Instruments* (2010) was issued which now includes all the requirements of PFRS 9 (2009) without amendment. The new version of PFRS 9 also incorporates requirements with respect to the classification and measurement of financial liabilities and the

derecognition of financial assets and financial liabilities. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 9 (2010) supersedes PFRS 9 (2009). However, for annual periods beginning before January 1, 2013, an entity may elect to apply PFRS 9 (2009) rather than PFRS 9 (2010).

The Group will assess the impact of the new or revised standards, amendments to standards and interpretations on the consolidated financial statements upon adoption.

Financial Assets and Financial Liabilities

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

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

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

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

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

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

Financial Assets

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

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

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

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

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

The carrying values of financial assets under this category amounted to P227 and P208 as of December 31, 2010 and 2009, respectively (Note 7).

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

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

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

The Group's cash and cash equivalents, trade and other receivables, due from affiliates and long-term receivables are included in this category (Notes 6, 9 and 14).

The combined carrying values of financial assets under this category amounted to P90,819 and P42,870 as of December 31, 2010 and 2009, respectively (Note 34).

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments shall be recognized as part of "Interest income" in the consolidated statement of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statement of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2010 and 2009, the Group has no investments accounted for under this category.

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

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

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

The carrying values of financial assets under this category amounted to P1,161 and P1,355 as of December 31, 2010 and 2009, respectively (Note 8).

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values are also classified under this category.

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

The carrying values of financial liabilities under this category amounted to P30 and P1 as of December 31, 2010 and 2009, respectively (Note 34).

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

Included in this category are the Group’s liabilities arising from its short term loans, liabilities for crude oil and petroleum product importation, trade and other payables, long-term debt, cash bond, cylinder deposits and other noncurrent liabilities (Notes 15, 16, 17 and 19).

The combined carrying values of financial liabilities under this category amounted to P104,843 and P73,743 as of December 31, 2010 and 2009, respectively (Note 34).

Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are charged against current operations.

Embedded Derivatives

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

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

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset expired.
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement.
- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

Offsetting Financial Instruments

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

Inventories

Inventories are carried at the lower of cost and net realizable value. For petroleum products, crude oil, and tires, batteries and accessories (TBA), the net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute. For materials and supplies, net realizable value is the current replacement cost.

For financial reporting purposes, Petron uses the first-in, first-out method in costing petroleum products (except lubes and greases, waxes and solvents), crude oil, and other products. Cost is determined using the moving-average method in costing lubes and greases, waxes and solvents, TBA, materials and supplies inventories. For income tax reporting purposes, cost of all inventories is determined using the moving-average method.

For financial reporting purposes, duties and taxes related to the acquisition of inventories are capitalized as part of inventory cost. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

Transactions under Common Control

Transactions under common control entered into in contemplation of each other, and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using the book value accounting.

Non-controlling Interests

For acquisitions of non-controlling interests on or after January 1, 2010, the acquisitions are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Investment in Associates

The Group's investment in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the associate after the date of acquisition. The Group's share of the profit or loss of the associate is recognized in the Group's profit or loss. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The Group's share of those changes is recognized in other comprehensive income.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized.

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statements of income include the Group's share of the total recognized earnings and losses of the associate on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Group's share of those changes is recognized in other comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. Upon acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with PFRS 3, *Business Combinations*. Consequently:

- a. goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.
- b. any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

The Group discontinues applying the equity method when its investment in an associate is reduced to zero. Additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes applying the equity method only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

The financial statements of the associates are prepared for the same reporting period as the Parent Company. The accounting policies of the associates conform to those used by the Group for like transactions and events in similar circumstances.

Interest in a Joint Venture

The Group's 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI), included under "Other Noncurrent Assets" account in the consolidated statement of financial position, incorporated on September 29, 2004 under the laws of the Republic of the Philippines, is accounted for under the equity method of accounting. The interest in joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in net income (loss) of the joint venture, less any impairment in value. The consolidated statement of income reflects the Group's share in the results of operations the joint venture presented as part of "Other Income (Expenses) - Miscellaneous" account (Note 25). The Group has no capital commitments or contingent liabilities in relation to its interest in this joint venture.

Results of operations as well as financial position balances of PDSI were less than 1% of the consolidated values and as such are assessed as not material; hence, not separately disclosed.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

For financial reporting purposes, duties and taxes related to the acquisition of property, plant and equipment are capitalized. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

For financial reporting purposes, depreciation and amortization are computed using the straight-line method over the estimated useful lives of the following assets:

	Number of Years
Building and related facilities	2 - 25
Refinery and plant equipment	5 - 16
Service stations and other equipment	1 1/2 - 10
Computers, office and motor equipment	2 - 10
Leasehold improvements	10 or the term of the lease, whichever is shorter

The remaining useful lives, residual values, depreciation and amortization method are reviewed and adjusted, if appropriate, periodically to ensure that such periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

For income tax reporting purposes, depreciation and amortization are computed using the double-declining balance method.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization are credited or charged to current operations.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Investment Properties

Investment properties consist of properties held to earn rentals and/or for capital appreciation. Investment properties, except land, are stated at cost less accumulated depreciation and any impairment in value. Cost includes acquisition costs and directly attributable costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Land is carried at cost less any impairment in value.

For financial reporting purposes, depreciation of office units is computed on straight-line basis over the estimated useful lives of the assets of 20 years. For income tax reporting purposes, depreciation is computed using the double-declining balance method. The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at each financial year-end.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Cylinder Deposits

The LPG cylinders remain the property of the Group and are loaned to dealers upon payment by the latter of an equivalent 100% of the acquisition cost of the cylinders.

The Group maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting period, cylinder deposits, shown under "Other Noncurrent Liabilities" account in the consolidated statement of financial position, are reduced for estimated non-returns. The reduction is credited directly to profit or loss.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over 5 to 10 years upon commencement of commercial operations.

Gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

As of December 31, 2010 and 2009, the Group has existing and pending trademark registration for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and two flames, for Powerburn 2T, and for Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for another 50 years after creator's death.

The amount of intangible assets is included under the caption of Others in the "Other Noncurrent Assets" in the consolidated statement of financial position.

Expenses incurred for research and development of internal projects and internally developed patents and copyrights are expensed as incurred and classified under the caption of Others under "Selling and Administrative Expenses" account in the consolidated statement of income (Note 22).

Impairment of Non-financial Assets

The carrying values of property, plant and equipment, investment properties and intangible assets with useful finite lives are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Provisions

Provisions are recognized when the Group has: a) a present obligation (legal or constructive) as a result of past event; b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

The Group recognizes provisions arising from legal and/or constructive obligations associated with cost of dismantling and removing an item of property, plant and equipment and restoring the site where it is located, the obligation for which the Group incurs either when the asset is acquired or as a consequence of having used the asset during a particular year for purposes other than to produce inventories during the year. Asset retirement obligation (ARO) is presented under Note 18.

Capital Stock

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares

Preferred shares are classified as equity if it is non-redeemable, or redeemable only at the Parent Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's BOD.

Preferred shares are classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Revenue

Revenue is recognized to the extent that is probable that the economic benefits will flow to the Group and revenue can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Sale of Goods. Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, title has transferred, selling price is fixed or determinable and collectibility of the selling price is reasonably assured.

Interest Income. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Rental Income. Revenue from investment properties is recognized on a straight-line basis over the term of the lease. Rent income is included as part of other income.

Dividend Income. Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

Revenue is measured by reference to the fair value of the consideration received or receivable by the Group for goods supplied and services provided, excluding sales tax [or value-added tax (VAT)] except where:

- the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of "Trade and Other Receivables" or "Trade and Other Payables" account in the consolidated statement of financial position.

Cost and Expense Recognition

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as Lessee. Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased property, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Leased asset is depreciated over its estimated useful life. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

Employee Benefits

The Group has a tax qualified and fully funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. Retirement costs are actuarially determined using the projected unit credit method. This method reflects service rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs and effect of any curtailments or settlements. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to the plan, past service cost is recognized immediately as an expense. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceed the greater of 10% of the present value of the defined benefit obligation or the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation, reduced by past service costs not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the resulting asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan, net actuarial losses of the current period and past service costs of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service costs of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service costs of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service costs of the current period are recognized immediately.

The Group has a corporate performance incentive program that aims to provide financial incentives for the employees, contingent on the achievement of the Group's annual business goals and objectives. The Group recognizes achievement of its business goals through key performance indicators (KPIs) which are used to evaluate performance of the organization. The Group recognizes the related expense when the KPIs are met, that is when the Group is contractually obliged to pay the benefits.

The Group also provides other benefits to its employees as follows:

Savings Plan. The Group established a Savings Plan wherein eligible employees may apply for membership and have the option to contribute 5% to 15% of their monthly base pay. The Group, in turn, contributes an amount equivalent to 50% of the employee-member's contribution. However, the Group's 50% share applies only to a maximum of 10% of the employee-member's contribution. The Savings Plan aims to supplement benefits upon employees' retirement and to encourage employee-members to save a portion of their earnings. The Group accounts for this benefit as a defined contribution pension plan and recognizes a liability and an expense for this plan as the expenses for its contribution fall due. The Group has no legal or constructive obligations to pay further contributions after payments of the equivalent employer-share. The accumulated savings of the employees plus the Group's share, including earnings, will be paid in the event of the employee's (a) retirement, (b) resignation after completing at least five years of continuous services, (c) death, or (d) involuntary separation not for cause.

Land/Home Ownership Plan. The Group established the Land/Home Ownership Plan, an integral part of the Savings Plan, to extend a one-time financial assistance to Savings Plan members in securing housing loans for residential purposes.

Foreign Currency

Foreign currency translations

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary

items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, if any, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve ("Revaluation reserve") in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the "Other reserve" in equity.

Taxes

Current Tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at reporting date.

Deferred Tax. Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, the assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Intangible assets, investment property, and property, plant and equipment once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income or loss for the period attributable to ordinary equity holders of the Parent Company, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

The Group has no dilutive potential common shares outstanding that would require disclosure of diluted earnings per share in the consolidated statement of income.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 36 to the consolidated financial statements.

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchase between business segments and between geographical segments. Such sales and purchases are eliminated in consolidation.

The Group's CEO (the chief operating decision maker) reviews management reports on a regular basis.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's consolidated financial position at reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements at the reporting date. However, uncertainty about these estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group has determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.

Determining Fair Values of Financial Instruments. Where the fair values of financial assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Group uses judgments to select from variety of valuation models and make assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

Distinction between Property, Plant and Equipment and Investment Property. The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Taxes. Significant judgment is required in determining current and deferred tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax expenses in the year in which such determination is made.

Beginning July 2008, in the determination of the Group's current taxable income, the Group has an option to either apply the optional standard deduction (OSD) or continue to claim itemized standard deduction. The Group, at each taxable year from the effectivity of the law, may decide which option to apply; once an option to use OSD is made, it shall be irrevocable for that particular taxable year. For 2010, 2009 and 2008 the Group opted to continue claiming itemized standard deductions except for Petrogen, as it opted to apply OSD in 2010.

Contingencies. The Group currently has several tax assessments and legal claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future consolidated financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 38).

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for Impairment Losses on Trade and Other Receivables. Allowance for impairment is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. An evaluation of receivables, designed to identify potential changes to allowance, is performed regularly throughout the year. Specifically, in coordination with the National Sales Division, the Finance Division ascertains customers who are unable to meet their financial obligations. In these cases, the Group's management use sound judgment based on the best available facts and circumstances included but not limited to, the length of relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience. The amount of impairment loss differs for each year based on available objective evidence for which the Group may consider that it will not be able to collect some of its accounts. Impaired accounts receivable are written off when identified to be worthless after exhausting all collection efforts. An increase in allowance for impairment of trade and other receivable would increase the Group's recorded selling and administrative expenses and decrease current assets.

Impairment losses on trade and other receivables amounted to P481, P58 and P71 in 2010, 2009 and 2008, respectively (Note 9). Receivables written off amounted P3 and P7 in 2010 and 2008, respectively. There were no receivables written off in 2009.

The carrying value of receivables, amounted to P24,266 and P29,696 as of December 31, 2010 and 2009, respectively (Note 9).

Net Selling Prices of Inventories. In determining the net selling price of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amount of inventories of P28,145 and P28,169 as at the end of 2010 and 2009, respectively (Note 10) is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year. At the end of 2010, the carrying amount of inventories is mostly based on cost.

There is no inventory write-down provided in 2010. Inventory write-down amounted to P1,141 in 2009 and P2,432 in 2008.

Allowance for Inventory Obsolescence. The allowance for inventory obsolescence consists of collective and specific valuation allowance. A collective valuation allowance is established as a certain percentage based on the age and movement of stocks. In case there is write-off or disposal of slow-moving items during the year, a reduction in the allowance for inventory obsolescence is made. Review of allowance is done every quarter, while a revised set-up or booking is posted at the end of the year based on evaluations or recommendations of the proponents. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

Provision for inventory obsolescence in 2010, 2009, and 2008 amounted to P69, P7 and P9, respectively (Note 10).

Financial Assets and Financial Liabilities. The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgments. Significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in the fair value of these financial assets and financial liabilities would affect profit or loss and equity.

Fair value of financial assets and financial liabilities are discussed in Note 34.

Estimated Useful Lives of Property, Plant and Equipment, Intangible Assets and Investment Properties. The Group estimates the useful lives of property, plant and equipment, intangible assets and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses

for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, intangible assets and investment properties would increase recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

There is no change in estimated useful lives of property, plant and equipment, intangible assets and investment properties based on management reviews at the reporting date.

Accumulated depreciation and amortization of property, plant and equipment and investment properties amounted to P31,035 and P28,691 as of December 31, 2010 and 2009, respectively. Property, plant and equipment, net of accumulated depreciation and amortization amounted to P34,957 and P34,784 as of December 31, 2010 and 2009, respectively (Note 12). Investment properties, net of accumulated depreciation amounted to P119 and P232 as of December 31, 2010 and 2009, respectively (Note 13).

Fair Value of Investment Properties. The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be exchanged between a willing buyer and seller in an arm's length transaction, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated fair values of investment property (office units) amounted to P30 and P214 as of December 31, 2010 and 2009, respectively (Note 13).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P28 and P7 as of December 31, 2010 and 2009, respectively (Note 26).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on property, plant and equipment, intangible assets and investment properties when events or changes in circumstances indicate that the carrying value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on financial performance.

There were no impairment loss recognized in 2010, 2009 and 2008, respectively.

The aggregate carrying amount of property, plant and equipment and investment properties amounted to P35,076 and P35,016 as of December 31, 2010 and 2009, respectively (Notes 12 and 13).

Present Value of Defined Benefit Obligation. The present value of the retirement obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 29 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligations.

The Group has a net cumulative unrecognized actuarial gain amounting to P21,853 and P500 as of December 31, 2010 and 2009, respectively (Note 29).

Asset Retirement Obligation. The Group has an asset retirement obligation arising from leased service stations and depots. Determining asset retirement obligation requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of asset retirement obligation, by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 4.81% to 11.17% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The Group also has an asset retirement obligation arising from its refinery. However, such obligation is not expected to be settled for the foreseeable future and therefore a reasonable estimate of fair value cannot be determined. Thus, the asset retirement obligation amounting to P815 and P541 as of December 31, 2010 and 2009, respectively (Note 18), covers only the Group's leased services stations and depots.

5. Assets Held for Sale

Petron has properties consisting of office units located at Petron Mega Plaza which has a floor area of 21,216 square meters covering the 28th - 44th floors and 209 parking lots recorded as part of property, plant and equipment and investment properties amounting to P6 and P817, respectively, in the statement of financial position. On December 1, 2010, Petron's BOD approved the sale of these properties to provide cash flows for various projects. The total carrying amount of the property, plant and equipment and investment properties as of December 31, 2010 of P823 is presented as "Assets held for sale" in the consolidated statement of financial position.

Total estimated fair value of the properties amounted to P1,242. Management expects to sell the properties within the next 12 months.

6. Cash and Cash Equivalents

This account consists of:

	<i>Note</i>	2010	2009
Cash on hand		P3,626	P3,101
Cash in banks		2,822	1,560
Short-term placements		37,536	8,324
	<i>34</i>	P43,984	P12,985

Cash in banks earns interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group, and earn interest (Note 25) at the respective short-term placement rates ranging from 1.6% to 6.25% in 2010 and 2.5% to 6.2% in 2009.

7. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	<i>Note</i>	2010	2009
Marketable equity securities	<i>34</i>	P97	P92
Proprietary membership shares	<i>34</i>	96	77
Derivative assets	<i>33, 34</i>	34	39
		P227	P208

The fair values presented have been determined directly by reference to published prices quoted in an active market.

Changes in fair value recognized in 2010, 2009 and 2008 amounted to P64, P22 and (P67), respectively (Note 25).

8. Available-for-Sale Financial Assets

This account consists of investments in government securities of Petrogen and ROP9 bonds of Ovincor.

Petrogen's government securities are deposited with the Insurance Commission (IC) in accordance with the provisions of the IC, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates of 6.25% to 8.875% in 2010, 6.3% to 8.9% in 2009 and 6.8% to 14.6% in 2008 (Note 25).

Ovincor's ROP9 bonds are maintained at the Bank of Bermuda and are carried at fair value with fixed interest rate of 8.3% to 8.9% from May 2009 (purchase date) to March 2015 (maturity date).

The breakdown of investments by contractual maturity dates as of December 31 follows:

	<i>Note</i>	2010	2009
Due in one year or less		P178	P170
Due after one year through five years		983	1,185
	34	P1,161	P1,355

The reconciliation of the carrying amounts of available-for-sale financial assets as of December 31 follows:

	2010	2009
Balance at beginning of year	P1,355	P682
Additions	-	965
Disposals	(168)	(326)
Amortization of premium	(19)	(12)
Fair value gains	32	48
Foreign currency losses	(39)	(2)
Balance at end of year	P1,161	P1,355

9. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2010	2009
Trade		P13,121	P13,119
Related parties - trade	27	1,779	-
Allowance for impairment loss on trade receivables		(1,051)	(781)
		13,849	12,338
Government		6,688	13,352
Others		3,983	4,060
Allowance for impairment loss on non-trade receivables		(254)	(54)
		10,417	17,358
	34	P24,266	P29,696

Trade receivables are noninterest-bearing and are generally on a 45 day term. Government receivables pertain to tax claims, such as VAT and specific tax claims (Note 14). Of these receivables, P6,142 is over 30 days but less than one year. The filing and the collection of claims is a continuous process and is closely monitored.

Receivables- Others significantly consist of receivables relating to creditable withholding tax, tax certificates on product replenishment and duties.

A reconciliation of the allowance for impairment at the beginning and end of 2010 and 2009 is shown below:

	<i>Note</i>	2010	2009
Balance beginning of year		P835	P782
Additions	22	481	58
Write off		(3)	-
Interest income on accretion		(8)	(5)
Balance at end of year		P1,305	P835

There were no reversal of allowance for impairment losses in 2010 and 2009.

As of December 31, 2010 and 2009, the age of past due but not impaired trade accounts receivable (TAR) is as follows (Note 33):

	Past Due But Not Impaired				Total
	Within 30 days	31 to 60 days	61 to 90 days	Over 90 days	
December 31, 2010					
Reseller	P15	P31	P6	P1	P53
Lubes	2	3	2	4	11
Gasul	39	52	37	44	172
Industrial	95	265	164	250	774
Others	-	5	61	68	134
	P151	P356	P270	P367	P1,144

December 31, 2009	Past Due But Not Impaired				Total
	Within 30 days	31 to 60 days	61 to 90 days	Over 90 days	
Reseller	P20	P6	P6	P22	P54
Lubes	1	13	9	16	39
Gasul	11	40	51	62	164
Industrial	46	593	247	502	1,388
Others	-	5	47	92	144
	P78	P657	P360	P694	P1,789

No allowance for impairment is necessary as regard these past due but unimpaired trade receivables based on past collection experience. There are no significant changes in credit quality. As such, these amounts are still considered recoverable.

10. Inventories

Inventories at net realizable value consists of:

	2010	2009
Crude oil and others	P13,532	P13,457
Petroleum	13,749	13,903
TBA products, materials and supplies:		
TBA	27	18
Materials and supplies	837	791
	P28,145	P28,169

The cost of these inventories amounted to P28,532 and P28,571 for 2010 and 2009, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have increased (decreased) by (P715), (P1,378) and P2,243 as of December 31, 2010, 2009 and 2008, respectively.

Research and development costs (Note 22) on these products constituted the expenses incurred for internal projects in 2010 and 2009.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P203,767, P156,001 and P259,405 in 2010, 2009 and 2008, respectively (Note 21).

The movements in allowance for decline in value of inventories at the beginning and end of 2010 and 2009 follow:

	2010	2009
Balance at beginning of the year	P402	P2,742
Additions due to:		
Write-down	-	1,141
Obsolescence	69	7
Reversal of allowance for:		
Write-down	(84)	(3,488)
Balance at end of year	P387	P402

Reversal of allowance for inventory write-down in 2010 and 2009, which was due to price changes, and was charged as part of "Others - net" under "Cost of Goods Sold" account (Note 21).

11. Investments in Associates

This account consists of:

	2010
Acquisition cost:	
Balance at beginning of year	P-
Additions	958
Balance at end of year	958
Share in net loss:	
Balance at beginning of year	-
Share in net loss during the year	(151)
Share in comprehensive loss	(3)
Balance at end of year	(154)
	P804

Petrochemical Asia (HK) Limited (PAHL)

On March 13, 2010, the Parent Company acquired 182,000,000 ordinary shares or 40% of the outstanding shares of PAHL from Vantage Stride (Mauritius) Limited (“Vantage Stride”).

PAHL is a company incorporated in Hong Kong. It has an authorized capital of Hong Kong Dollar (HK\$) 585 million, consisting of 585,000,000 shares at HK\$1 per share. Of this, 455,000,000 shares are outstanding. Silverdale (Suisse), S.A. holds the remaining 60% of the outstanding shares of PAHL.

PAHL was incorporated in March 2008 and indirectly owns, among other assets, a 160,000 metric ton-polypropylene production plant in Mariveles, Bataan.

In June 2010, another investor acquired 102,142,858 new “Class B” ordinary shares which reduced Petron’s ownership to 33%.

PAHL’s business operations is expected to commence on the first quarter of 2011.

Limay Energen Corp. (LEC)

On August 3, 2010, the Parent Company together with Two San Isidro SIAI Assets, Inc. (Two San Isidro), formed LEC with an authorized capital stock of P3,400. Out of its authorized capitalization, P850 has been subscribed, of which P212.5 has been paid up. The Parent Company subscribed to P339.99 worth of shares of LEC representing 40% of the total subscribed capital, while Two San Isidro subscribed to P509.99 worth of shares of LEC, representing the remaining 60% of the total subscribed capital.

LEC was formed to build, operate and maintain a cogeneration power plant that will engage in a generation of power and steam for the primary purpose of supplying the steam and power requirements of Petron Bataan Refinery.

Following are the unaudited condensed and combined financial information of PAHL and LEC:

	2010
Total assets	P3,880
Total liabilities	2,181
Net loss	576

12. Property, Plant and Equipment

This account consists of:

	Buildings and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction In-progress	Total
Cost:							
December 31, 2008	P14,082	P31,308	P3,999	P2,214	P4,017	P6,095	P61,715
Additions	713	5,543	159	99	35	949	7,498
Disposals/reclassifications	(93)	-	(88)	(287)	192	(5,593)	(5,869)
December 31, 2009	14,702	36,851	4,070	2,026	4,244	1,451	63,344
Additions	40	4	151	138	92	4,053	4,478
Disposals/reclassifications	(857)	437	1,132	(19)	190	(2,708)	(1,825)
Assets held for sale	(14)	-	-	-	-	-	(14)
December 31, 2010	13,871	37,292	5,353	2,145	4,526	2,796	65,983
Accumulated depreciation and amortization:							
December 31, 2008	7,093	12,122	3,101	1,759	1,212	-	25,287
Additions	736	2,317	284	183	52	-	3,572
Disposals/reclassifications	(14)	-	(1)	(284)	-	-	(299)
December 31, 2009	7,815	14,439	3,384	1,658	1,264	-	28,560
Additions	712	2,113	387	163	108	-	3,483
Disposals/reclassifications	(898)	-	(15)	(93)	(3)	-	(1,009)
Assets held for sale	(8)	-	-	-	-	-	(8)
December 31, 2010	7,621	16,552	3,756	1,728	1,369	-	31,026
Net book value:							
December 31, 2009	P6,887	P22,412	P686	P368	P2,980	P1,451	P34,784
December 31, 2010	P6,250	P20,740	P1,597	P417	P3,157	P2,796	P34,957

Interest capitalized in 2010, 2009 and 2008 amounted to nil, P40 and P316, respectively. Capitalization rates used for general borrowings (both short and long-term loans) were nil in 2010, 5.94% in 2009 and 7.20% in 2008, while capitalization rates used for specific borrowings were nil in 2010 and 2009 and 4.60% to 8.88% in 2008 (Note 17).

No impairment loss was required to be recognized in 2010 and 2009.

Capital Commitments

As of December 31, 2010, the Group has outstanding commitments to acquire property, plant and equipment amounting to P1,142.

13. Investment Properties

The movements and balances as of December 31 follows:

	Land	Office Units	Total
Cost:			
December 31, 2008 and 2009	P100	P263	P363
Additions/Reclassification	-	759	759
Asset held for sale	-	(994)	(994)
December 31, 2010	100	28	128
Accumulated depreciation:			
December 31, 2008	-	117	117
Additions	-	14	14
December 31, 2009	-	131	131
Additions	-	55	55
Asset held for sale	-	(177)	(177)
December 31, 2010	-	9	9
Net book value:			
December 31, 2009	P100	P132	P232
December 31, 2010	P100	P19	P119

The Group's investment properties consist of office units located at Petron Mega Plaza (reclassified as "Assets held for sale" in Note 5) and parcels of land in various locations. Estimated fair values for the office units, based on recent sale of units within the building and/or sale of units in comparative Grade A buildings, amounted to P30 and P214 in 2010 and 2009, respectively.

The Group's parcels of land are located in Metro Manila and some major provinces. As of December 31, 2010 and 2009, the aggregate fair market value of the properties of P120 million, determined by independent appraisers, is higher than their carrying values, considering recent market transactions and specific conditions related to the parcels of land as determined by NVRC.

Rental income earned from office units amounted P16 and P13 and P16 in 2010, 2009 and 2008, respectively, which are recognized as part of "Other Income (Expenses)" account (Note 25).

14. Other Assets

This account consists of:

	Note	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Current:				
Input VAT	9	P3,399	P3,779	P10,739
Prepaid expenses		781	510	824
Special-purpose fund		41	36	201
Others		65	103	158
		P4,286	P4,428	P11,922
Noncurrent:				
Due from affiliates	27, 33, 34	P22,447	P -	P -
Catalyst	12	169	243	241
Prepaid rent		161	339	100
Long-term receivables	33, 34	122	189	202
Retirement assets		-	-	264
Others - net		117	107	85
		P23,016	P878	P892

The "Noncurrent Assets - Others" classification includes franchise fees amounting to P10 and P9 in 2010 and 2009, respectively, net of amortization of franchise fees amounting to P2 in 2010 and 2009. Amortization of franchise fee is included as part of "Selling and Administrative - Depreciation and amortization" account in the consolidated statement of income (Note 22).

Included in Due from affiliates is an advance made by the Parent Company on July 15, 2010, amounting to P20,797 to Petron Corporation Employee Retirement Plan (PCERP) for some investment opportunities. Such advance is interest bearing at market rates.

15. Short-term Loans

This account pertains to unsecured peso loans obtained from local banks with maturities ranging from 30 to 180 days with interest ranging from 3.05% to 4.87%. Also, it pertains to unsecured dollar loan obtained from foreign bank with 29-day term and an interest rate of 1.8% (Note 25). These loans are intended to fund the importation of crude oil and petroleum products (Note 10), capital expenditures (Note 12) and working capital requirements.

Short-term loans of the Group are not subject to covenants and warranties.

16. Trade and Other Payables

This account consists of:

	<i>Note</i>	2010	2009
Trade		P3,772	P2,200
Accrued interest		742	529
Accrued rent		688	650
Specific taxes and other taxes payable		563	849
Insurance liabilities		237	240
Dividends payable		196	199
Related parties - trade	27	90	-
Accrued payroll		41	18
Others		415	231
		P6,744	P4,916

Accounts payable are liabilities to haulers, contractors and suppliers that are noninterest-bearing and are normally settled on a 30-day term.

17. Long-term Debt

This account consists of:

	<i>Note</i>	2010	2009
Unsecured Peso denominated (net of debt issue cost):			
Fixed rate peso loans of 6.73% (a)		P767	P1,381
Fixed rate corporate notes of 8.88%, 8.14% and 9.33% (b, c)		16,162	16,180
Floating rate peso loan based on PDST-F and SDA rates (d, e)		2,466	1,331
Fixed interest rate bonds of 7% in 2010 to 2017 (f)		19,779	-
Unsecured Foreign currency denominated (net of debt issue cost):			
Floating rate dollar loan based on LIBOR rate + 2.15% (g)		15,228	-
	34	54,402	18,892
Less current portion		11,517	1,296
		P42,885	P17,596

- a. On January 31, 2007, Petron entered into a Club loan agreement with Metropolitan Bank and Trust Company (MBTC) and Citibank amounting to P1,000 each. The loan bears interest of 6.73% (gross of 5% tax) per annum payable in 13 quarterly installments starting January 2009 up to 2012. In December 2007, Citibank assigned P900 of its interest in the Club loan agreement to the following financial institutions:

Bank Name	Amount
MayBank Phils.	P500
Mega International Commercial Bank of China	300
Robinsons Bank	100
	P900

In May 2008, Citibank assigned its remaining P100 interest to Insular Life Assurance Co. Ltd.

- b. On July 31, 2006, Petron issued a P6,300 Fixed Rate Corporate Note to finance the construction of its Petro Fluidized Catalytic Cracker Unit (PFCCU) and Propylene Recovery Unit and for other general purposes. The note bears annual interest of 8.88% per annum. The note is due on August 2, 2011.

- c. On June 5, 2009, Petron issued P5,200 and P4,800 or a total of P10,000 Fixed Rate Corporate Notes. The P5,200 five-year Note bears a fixed rate of 8.14% per annum with a one-time payment of principal on June 2014. On the other hand, the P4,800 seven-year notes bears a fixed rate of 9.33% per annum with 6 principal payments of P48 per year commencing June 2010 and a one-time payment of P4,512 on June 2016.
- d. On November 29, 2006, Petron entered into a loan agreement with Land Bank of the Philippines amounting to P2,000 which bears interest calculated based on the prevailing 3-month MART (now PDST-F) rate plus a fixed spread. The loan was used to finance Petron's capital expenditures. The loan has a term of 5 years, inclusive of 2 years grace period whereby the principal is payable in 12 equal quarterly amortization starting March 2009. The last amortization payment is due on November 2011.
- e. On December 14, 2010, Petron entered into a three year term facility agreement with Development Bank of the Philippines amounting to P1.8 Billion. The loan is subject to a quarterly repricing and the principal amount is amortized in twelve quarterly installments of P150 million starting March 2011 up to 2014. The loan was obtained to finance Petron's general corporate requirements.
- f. On November 10, 2010, Petron issued a P20,000 Peso-Denominated Notes, payable in U.S. Dollars. The notes bear interest of 7% per annum, payable semi-annually in arrears on May 10 and November 10 of each year, with the first interest payment to be made on May 10, 2011. The notes will mature on November 10, 2017. The principal and interest will be translated into and paid in U.S. dollars based upon the average representative market rate at the applicable rate calculation date at the time of each payment.
- g. On June 7, 2010, Petron entered into a term facility agreement with Norddeutsche Landesbank Girozentrale, Singapore Branch amounting to US\$355 million. The loan is subject to interest rate of LIBOR plus 2.5% and the principal is due in 9 semi-annual installments of US\$39.4 million starting June 1, 2011. The loan was used for general corporate purposes and refinancing of peso-denominated debts.

The above mentioned loan agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on guarantees, payments of dividends.

Total interest incurred on the above-mentioned long-term loans amounted to P2,164, P1,310 and P763 in the years ended 2010, 2009 and 2008, respectively. Capitalized interest in 2010, 2009 and 2008 amounted to nil, P40 and P316, respectively (Note 12).

As of December 31, 2010 and 2009, Petron complied with the covenants of its debt agreements.

Movements in debt issue costs follow:

	<i>Note</i>	2010	2009
Beginning balance		P126	P50
Additions		634	104
Accretion for the year	25	(112)	(28)
Ending balance		P648	P126

Repayment Schedule

As of December 31, 2010, the annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2011	P11,687	P170	P11,517
2012	4,260	144	4,116
2013	4,107	119	3,988
2014	8,706	85	8,621
2015	1,778	52	1,726
2016	4,512	42	4,470
2017	20,000	36	19,964
	P55,050	P648	P54,402

18. Asset Retirement Obligation

Movements in the ARO are as follows:

	Note	2010	2009
Beginning balance		P541	P706
Additions		13	15
Effect of change in discount rate		248	(226)
Accretion for the year	25	46	60
Settlement	25	(18)	(14)
Reversal		(15)	-
Ending balance		P815	P541

19. Other Noncurrent Liabilities

	Note	2010	2009
Cash bonds	34	P275	P245
Cylinder deposits	34	274	200
Others	34	60	66
		P609	P511

20. Equity

- a. On February 27, 2009, the BOD approved an increase of Petron's authorized capital stock from the current P10,000 to P25,000 (25,000,000,000 shares) through the issuance of preferred shares aimed at raising funds for capital expenditures related to expansion programs as well as to possibly reduce some of Petron's debts. Both items, including a waiver to subscribe to the preferred shares to be issued as a result of the increase in authorized capital stock, were approved by the stockholders on May 12, 2009 at the annual stockholders meeting.

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

In November 2009, the requirements for the registration statement of Petron's preferred shares, the Preliminary Prospectus, were submitted to SEC. The application for listing of preferred shares was also subsequently filed with PSE. By written assent, majority of the stockholders voted for the amendment of the reclassification of unissued common shares to preferred shares.

On January 21, 2010, the SEC approved Petron's amendment to its 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. The SEC subsequently issued an Order permitting the sale of securities on February 12, 2010. Similarly, the PSE also approved the issuance of 100,000,000 preferred shares, which were offered to the public from February 15 to February 26, 2010.

- b. Capital Stock

Common Stock

As of December 31, 2010, 2009 and 2008, Petron has 9,375,104,497 (P1 par value) issued and outstanding common shares.

Preferred Stock

The preferred shares are peso-denominated, cumulative, non-participating, non-voting and are redeemable at the option of the Parent Company. The preferred shares have an issue price of P100 per share (P1 par value) and a dividend rate of 9.5281% per annum computed in reference to the issue price and is payable every March 5, June 5, September 5 and December 5 of each year, when declared by the BOD.

All shares rank equally with regard to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

As of December 31, 2010, Petron has 100,000,000 issued and outstanding preferred shares

c. Retained Earnings

i. Declaration of Cash Dividends

On April 29, 2010, the BOD approved a cash dividend of P2.382 per share which was paid to preferred stockholders on June 7, 2010. Another cash dividend of P2.382 per share was paid on September 16, 2010 to preferred stockholders as of August 10, 2010 record date. Finally, stockholders holding preferred shares as of November 16, 2010 were also paid a cash dividend of P2.382 per share on December 6, 2010.

For common shares, the BOD similarly approved a cash dividend of P0.10 per share to stockholders as of July 30, 2010, which was paid on August 16, 2010.

ii. Appropriation for Capital Projects

Additional appropriation for future capital projects and loan obligations amounted to P2,748 in 2008. On February 27, 2009, Petron's BOD approved a resolution to reverse P8,428 of the appropriated retained earnings. There were no additional appropriations for capital projects made in 2010 and 2009.

- d. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint venture and associates amounting to P2,208, P2,035 and P1,910 in 2010, 2009 and 2008, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.
- e. The BOD of certain subsidiaries approved additional appropriation amounting to P62 in 2010 to finance future capital expenditure projects.
- f. Other reserves pertain to unrealized fair value gains (losses) on AFS financial assets and exchange difference in translating foreign operations.

21. Cost of Goods Sold

This account consists of:

	Note	2010	2009	2008
Inventories	10	P203,767	P156,001	P259,405
Depreciation and amortization	24	2,282	2,505	2,172
Personnel expenses	23	555	519	519
Others - net	10, 30	2,676	2,558	2,210
		P209,280	P161,583	P264,306

Distribution or transshipment costs included as part of inventories amounted to P4,161, P3,747 and P3,801 in 2010, 2009 and 2008, respectively.

22. Selling and Administrative Expenses

This account consists of:

	Note	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Personnel expenses	23	P1,972	P1,625	P1,375
Purchased services and utilities		1,311	1,332	1,202
Depreciation and amortization	24	1,258	1,083	1,071
Maintenance and repairs		551	522	482
Rent	27, 28	544	479	411
Impairment loss on trade and other receivables	9	481	58	71
Materials and office supplies		397	211	181
Advertising		222	222	235
Taxes and licenses		205	136	136
Others	10	362	80	58
		P7,303	P5,748	P5,222

Selling and administrative expenses-Others include research and development costs amounting to P14, P10 and P9 in 2010, 2009 and 2008, respectively.

23. Personnel Expenses

This account consists of:

	Note	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Salaries, wages and other employee costs	27	P2,274	P1,772	P1,726
Retirement costs - defined benefit plan	29	197	317	118
Retirement costs - defined contribution plan		56	55	50
		P2,527	P2,144	P1,894

The above amounts are distributed as follows:

	Note	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Costs of goods sold	21	P555	P519	P519
Selling and administrative expenses	22	1,972	1,625	1,375
		P2,527	P2,144	P1,894

24. Depreciation and Amortization

This account consists of:

	Note	2010	2009	2008
Cost of goods sold				
Property, plant and equipment	12, 21	P2,282	P2,505	P2,172
Selling and administrative expenses				
Property, plant and equipment	12	1,201	1,067	1,056
Investment properties	13	55	14	14
Intangible assets		2	2	1
	22	1,258	1,083	1,071
		P3,540	P3,588	P3,243

25. Interest Expense, Interest Income and Other Income (Expenses)

This account consists of:

	Note	2010	2009	2008
Interest expense:				
Long-term debt	17	P2,052	P1,282	P713
Short-term loans	15	1,368	2,214	2,614
Bank charges		673	649	621
Accretion on debt issue costs	17	112	28	50
Accretion on ARO	18	46	60	40
Product borrowings		12	13	21
Others		46	5	121
		P4,309	P4,251	P4,180
Interest income:				
Advances to PCERP and cash bond	14	P471	P-	P-
Short-term placements	6	237	92	225
AFS financial assets		50	51	42
Trade receivables		46	38	54
Product loaning		14	7	8
Cash in banks	6	5	5	9
Others		16	12	16
		P839	P205	P354
Other income (expenses):				
Foreign currency gains (losses) - net	33	P1,465	P146	(P1,708)
Mark-to-market gain (losses)	34	(98)	(409)	179
Rent	13, 28	215	346	357
Insurance claims		97	172	33
Changes in fair value of financial assets at FVPL	7	64	22	(67)
Gain on settlement of ARO	18	18	14	8
Hedging gains - net		13	461	1,159
Miscellaneous		(365)	(155)	(76)
		P1,409	P597	(P115)

The Parent Company recognized its share in the net income of PDSI amounting P0.35, P0.51 and P0.41 in 2010, 2009 and 2008, respectively, and recorded it as part of "Other Income (Expenses) - Miscellaneous" account.

26. Income Taxes

Deferred tax assets and liabilities are from the following:

	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Various allowance, accruals and others	P555	P77	P981
Rental	177	170	164
ARO	154	144	673
Retirement benefits liability	75	15	-
NOLCO	-	1,662	1,113
MCIT	-	298	123
Excess of double-declining over straight-line method of depreciation and amortization	(1,574)	(1,431)	(1,250)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	(625)	(532)	(572)
Inventory differential	(207)	(413)	116
Capitalization taxes and duties on inventories deducted in advance	(175)	(360)	(347)
Unrealized foreign exchange (gains) losses - net	(301)	20	(32)
Unrealized fair value gains on AFS financial assets	(9)	(7)	(2)
Retirement assets	-	-	(80)
	(P1,930)	(P357)	P887

The above amounts are reported in the consolidated statement of financial position as follows:

	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Deferred tax assets	P28	P7	P895
Deferred tax liabilities	(1,958)	(364)	(8)
	(P1,930)	(P357)	P887

Net deferred taxes of individual companies are not allowed to be offset against net deferred tax liabilities of other companies, or vice versa, for purposes of consolidation.

As of December 31, 2010, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due were all applied.

The components of income tax expense (benefit) are shown below:

	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Current	P820	P254	P240
Deferred	1,555	1,238	(2,113)
	P2,375	P1,492	(P1,873)

A reconciliation of tax on the pretax income computed at the applicable statutory rates to tax expense reported in the consolidated statement of income is as follows:

	Note	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Statutory income tax rate		30.00%	30.00%	35.00%
Additions to (reductions in) resulting from:				
Change in tax rate		-	-	(6.90)
Income subject to ITH	35	(6.40)	(2.82)	2.95
Interest income subjected to lower final tax and others		(0.26)	(0.87)	1.66
Nontaxable income		(0.33)	(0.64)	0.90
Nondeductible expense		0.05	0.24	(0.29)
Nondeductible interest expense		0.23	0.16	(0.59)
Changes in fair value of financial assets at FVPL	25	(0.18)	(0.13)	(0.40)
Excess of optional standard deduction over deductible expenses		(0.05)	-	-
Effective income tax rate		23.06%	25.94%	32.33%

Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. Petrogen opted to apply OSD in 2010.

Change in Applicable Tax Rate

Effective January 1, 2009, in accordance with Republic Act 9337, RCIT rate was reduced from 35% to 30% and nonallowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

27. Related Party Disclosures

Lease Agreement

On September 30, 2009, NVRC entered into a 25-year lease with the PNOC without rent-free period, covering a property which it shall use for refinery, commencing January 1, 2010 and ending on December 31, 2039. The annual rental shall be P93 payable on the 15th day of January each year without the necessity of demand. This non-cancelable lease is subject to renewal options and annual escalation clauses of 3% per annum up to 2011. The leased premises shall be reappraised starting 2012 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the appraisal. Prior to this agreement, Petron has an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2010, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

Transactions with current owners/related parties

- a. Sales relate to the Parent Company's supply agreements with various SMC subsidiaries. Under these agreements, the Parent Company supplies the bunker, diesel fuel and lube requirements of selected SMC plants and subsidiaries.
- b. Purchases relate to purchase of goods and services such as construction, information technology and shipping.
- c. Petron entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,759 square meters with a monthly rate of P4.8. The lease, which commenced on June 1, 2010, is for a period of one year and is subject to yearly extensions.
- d. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- e. The Parent Company advanced certain monies to PCERP for some investment opportunities (Note 14).

The balances and transactions with related parties as of and for the year ended December 31, 2010 follows:

Related Parties	Relationship with Related parties	Revenue from Related Parties	Purchases from Related parties	Amounts owed by Related parties	Amounts owed to Related parties
San Miguel Corporation	Ultimate Parent	P1	P29	P2	P33
Pan Asia Energy Holdings Inc.	Under common control	8,045	-	1,428	-
Distileria Bago Inc	Under common control	720	-	-	-
San Miguel Brewery Inc.	Under common control	573	0.60	100	-
San Miguel Packaging Specialist Inc.	Under common control	350	-	-	-
SMC Shipping & Lighterage Corporation	Under common control	304	407	46	13
Ginebra San Miguel Inc.	Under common control	169	0.30	58	-
San Miguel Foods Inc	Under common control	150	3	36	-

Related Parties	Relationship with Related parties	Revenue from Related Parties	Purchases from Related parties	Amounts owed by Related parties	Amounts owed to Related parties
San Miguel Energy Corporation	Under common control	83	-	-	-
San Miguel Yamamura Asia Corporation	Under common control	40	-	40	-
Challenger Aero Air Corporation	Under common control	22	2	9	-
Mindanao Corrugated Fibreboard Inc.	Under common control	17	-	4	-
San Miguel Purefoods Company Inc.	Under common control	14	4	-	7
Archen Technologies Inc.	Under common control	12	227	2	26
San Miguel Properties Inc.	Under common control	-	63	-	5
San Miguel Rengo Packaging Corporation	Under common control	-	-	49	-
Others	Under common control	12	39	5	6
		P10,512	P775	P1,779	P90

Key Management Compensation

Total compensation and benefits of key management personnel included as part of "Personnel Expenses" account in the consolidated statement of income consists of the following (Note 23):

	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Salaries and other short-term employee benefits	P328	P262	P222
Retirement benefits - defined contribution plan	11	9	8
Retirement benefits - defined benefit plan	399	234	70
	P738	P505	P300

28. Operating Lease Commitments

Group as Lessee

The Group entered into commercial leases on certain parcels of land for its refinery and service stations (Notes 22 and 27). These leases have an average life of one to sixteen years with renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Future minimum rental payables under the non-cancellable operating lease agreements as of December 31 follows:

	2010	2009	2008
Within one year	P738	P596	P506
After one year but not more than five years	2,661	2,207	2,189
After five years	8,741	5,744	2,126
	P12,140	P8,547	P4,821

Group as Lessor

The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Notes 13 and 25). The non-cancellable leases have remaining terms of between three to fourteen years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

Future minimum rental receivables under the non-cancellable operating lease agreements as of December 31 follows:

	2010	2009	2008
Within one year	P327	P231	P247
After one year but not more than five years	523	240	277
After five years	52	79	93
	P902	P550	P617

29. Retirement Plan

The succeeding tables summarize the components of net retirement costs under a defined benefit retirement plan recognized in the profit or loss and the funding status and amounts of pension plan recognized in the consolidated statement of financial position. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2010. Valuations are obtained on a periodic basis.

The components of retirement benefits cost recognized in profit or loss in 2010, 2009 and 2008 are as follows:

	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Current service cost	P165	P161	P191
Interest cost on benefit obligation	276	331	319
Expected return on plan assets	(312)	(201)	(392)
Curtailement loss	75	26	-
Amortization of actuarial gain	(7)	-	-
Net retirement costs	P197	P317	P118

The retirement benefits cost are recognized as part of personnel expenses in the consolidated statement of income.

The reconciliation of the assets and liabilities recognized in the consolidated statement of financial position is as follows:

	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Present value of defined benefit obligation	P3,559	P3,446	P3,534
Fair value of plan assets	25,163	3,896	3,832
	(21,604)	(450)	(298)
Unrecognized actuarial gain	21,853	500	34
Net retirement liabilities (asset) recognized	P249	P50	(P264)

Changes in the present value of the defined benefit obligation are as follows:

	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Balance at beginning of year	P3,446	P3,534	P3,852
Interest cost	276	331	319
Current service cost	165	161	191
Benefits paid	(1,109)	(611)	(168)
Actuarial loss (gains) on obligation	705	3	(660)
Effect of curtailment	76	28	-
Balance at end of year	P3,559	P3,446	P3,534

Changes in the fair value of plan assets are as follows:

	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Balance at beginning of year	P3,896	P3,832	P4,361
Expected return on plan assets	312	201	392
Benefits paid	(1,109)	(611)	(168)
Actuarial gains (losses)	22,064	474	(753)
Balance at end of year	P25,163	P3,896	P3,832
Actual return (loss) on plan assets	P22,376	P675	(P361)

The Group expects to pay P1,105 to its defined benefit plans in 2011.

Plan assets consist of the following:

	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Government securities	48%	44%	56%
Stocks	36%	32%	23%
Real estate	12%	15%	13%
Cash	1%	1%	1%
Others	3%	8%	7%
	100%	100%	100%

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2010	2009	2008
Discount rate	7.90%	8.00%	9.80%
Expected rate of return on plan assets	8.70%	8.00%	5.50%
Future salary increases	8.00%	6.00%	8.00%

The historical information for the current and previous restated four annual periods are as follows:

	2010	2009	2008	2007	2006
Present value of the defined benefit obligation	P3,559	P3,446	P3,534	P3,852	P3,783
Fair value of plan assets	25,163	3,896	3,832	4,361	4,217
Excess in the plan	(21,604)	(450)	(298)	(509)	(434)
Experience adjustments on plan liabilities	143	70	(240)	368	151

30. Significant Agreements

Supply Agreement

The Parent Company and Arabian American Oil Company ("Saudi Aramco") have a term contract to purchase and supply, respectively, 90% of the Parent Company's monthly crude oil requirements at Saudi Aramco's standard far east selling prices. The contract is for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of the Parent Company for such purchases are shown as part of "Liabilities for Crude Oil and Petroleum Product Importation" account in the consolidated statement of financial position. The contract was extended until October 27, 2011.

Processing License Agreement. The Parent Company has an agreement with Pennzoil-Quaker State International Corporation (Pennzoil) for the exclusive right to manufacture, sell and distribute in the Philippines certain Pennzoil products until December 31, 2009. The agreement also includes the license to use certain Pennzoil trademarks in exchange for the payment of royalty fee based on net sales value. The agreement was extended to March 31, 2010 to allow the Group to consume the remaining Pennzoil raw materials in its possession.

Royalty expense amounting to P0.06, P0.08 and P0.3 in 2010, 2009 and 2008, respectively, are included as part of "Cost of Goods Sold - Others" account in the consolidated statement of income (Note 21).

Fuel Supply Contract with National Power Corporation (NPC). The Parent Company entered into various fuel supply contracts with NPC. Under the agreements, Petron supplies the bunker fuel and diesel fuel oil requirements to selected NPC plants and NPC-supplied Independent Power Producers (IPP) plants.

As of December 31, 2010, the following are the fuel supply contracts granted to the Parent Company:

Bid Date	Date of Award	Contract Duration	DFO* (in KL*)	IFO* (in KL)	DFO	IFO
Feb 24, 2010	Mar 10, 2010	Mar to Dec 2010	3,058	18,051	P93	P495
Feb 24, 2010	Mar 10, 2010	Mar to Dec 2010	25,558	22,916	786	634
Feb 24, 2010	Mar 10, 2010	Mar to Dec 2010	11,554	-	347	-
Feb 24, 2010	Mar 10, 2010	Mar to Dec 2010	-	50,109	-	1,386
Aug 31, 2010	Sept 15, 2010	Sept to Dec 2010	10,056	-	327	-

* IFO = Industrial Fuel Oil
DFO = Diesel Fuel Oil
KL = Kilo Liters

In the bidding for the Supply & Delivery of Oil-Based Fuel to NPC, IPPs and Small Power Utilities Group (SPUG) Plants/Barges for the period from January to December 2010, Petron won to supply a total of 50,226 kilo-liters (KL) of diesel fuel and 91,076 KL of bunker fuel worth P1,555 and P2,515 respectively.

Toll Service Agreement with Innospec Limited ("Innospec"). PFC entered into an agreement with Innospec, a leading global fuel additives supplier, in December 2006. Under the agreement PFC shall be the exclusive toll blender of Innospec's fuel additives sold in the Asia-Pacific region consisting of the following and territories: South Korea, China, Taiwan, Singapore, Cambodia, Japan and Malaysia.

PFC will provide the tolling services which include storage, blending, filing and logistics management. In consideration of these services, Innospec will pay PFC a service fee based on the total volume of products blended at PFC Fuel Additives Blending facility.

Tolling services started in 2008 on which PFC recognized revenue amounting to P40, P52 and P7 in 2010, 2009 and 2008, respectively.

31. Basic and Diluted Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share amounts are computed as follows:

	2010	2009 (As Restated - Note 39)	2008 (As Restated - Note 39)
Net income from operations attributable to equity holders of the Parent Company	P7,894	P4,240	(P3,978)
Dividends on preferred shares for the period (a)	715	-	-
Net income (loss) attributable to equity holders of the Parent Company (b)	P7,179	P4,240	(P3,978)
Weighted average number of common shares outstanding (c)	9,375	9,375	9,375
Basic/Diluted earnings (loss) per share (b/c)	P0.77	P0.45	(P0.42)

32. Supplemental Disclosures on Cash Flow Information

Changes in operating assets and liabilities:

	2010	2009	2008
Decrease (increase) in assets:			
Trade and other receivables	(P1,803)	(P5,746)	P5,394
Inventories	39	4,964	(2,962)
Other current assets	78	(1,094)	(1,342)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum product importation	3,661	(1,353)	(3,926)
Trade and other payables	1,647	496	(259)
	3,622	(2,733)	(3,095)
Additional (reversal) allowance for impairment of receivables, inventory decline and/or obsolescence and others	501	(2,169)	2,444
	P4,123	(P4,902)	(P651)

33. Financial Risk Management Objectives and Policies

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

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

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

Risk Management Structure

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

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

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

- a. The Investment and Risk Management Committee, which is composed of the Chairman of the Board, President, and Vice Presidents of Petron, reviews the adequacy of risk management policies.
- b. A cross-functional Commodity Risk Management Committee, which oversees crude oil and petroleum product hedging transactions. The Secretariat of this committee is the Commodity Risk Manager, who is responsible for risk management of crude and product imports, as well as product margins.
- c. The Financial Risk Management Unit of the Treasurer's Department, which is in charge of foreign exchange hedging transactions.
- d. The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.
- e. The Corporate Technical & Engineering Services Department, which oversees strict adherence to safety and environmental mandates across all facilities.
- f. The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.

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

- a. The Audit Committee, which ensures the integrity of internal control activities throughout the Group. It develops, oversees, checks and pre-approves financial management functions and systems in the areas of credit, market, liquidity, operational, legal and other risks of the Group, and crisis management. The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.
- b. The Compliance Officer, who is a senior officer of Petron reports to the BOD through the Audit Committee. He monitors compliance with the provisions and requirements of the Corporate Governance Manual, determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Code of Corporate Governance.

Foreign Currency Risk

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

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

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

Information on the Group's US dollar-denominated financial assets and liabilities and their Philippine peso equivalents are as follows:

	2010		2009	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	648	28,395	163	7,519
Trade and other receivables	173	7,606	86	3,977
Non-current receivables	1	29	2	70
	822	36,030	251	11,566
Liabilities				
Drafts and loans payable	59	2,573	-	-
Liabilities for crude oil and petroleum product importation	288	12,606	128	5,929
Long-term debt (including current maturities)	355	15,563	-	-
	702	30,742	128	5,929
Net foreign currency-denominated monetary assets	120	5,288	123	5,637

The Group reported net foreign exchange gains (losses) amounting to P1,465, P146 and (P1,708) in 2010, 2009 and 2008, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	PhP to US\$
December 31, 2008	47.52
December 31, 2009	46.20
December 31, 2010	43.84

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of profit before tax and equity as of December 31, 2010 and 2009:

	P1 decrease in the US dollar exchange rate		P1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
2010				
Cash and cash equivalents	P28,395	P19,877	(P28,395)	(P19,877)
Trade and other receivables	7,606	5,324	(7,606)	(5,324)
Noncurrent receivables	29	20	(29)	(20)
	36,030	25,221	(36,030)	(25,221)
Drafts and loans payable	(2,573)	(1,801)	2,573	1,801
Liabilities for crude oil and petroleum product importation	(12,606)	(8,824)	12,606	8,824
Long-term debt (including current maturities)	(15,563)	(10,894)	15,563	10,894
	(30,742)	(21,519)	30,742	21,519
	P5,288	P3,702	(P5,288)	(P3,702)

	P1 decrease in the US dollar exchange rate		P1 increase in the US dollar exchange rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
2009				
Cash and cash equivalents	P7,519	P5,263	(P7,519)	(P5,263)
Trade and other receivables	3,977	2,784	(3,977)	(2,784)
Noncurrent receivables	70	49	(70)	(49)
	11,566	8,096	(11,566)	(8,096)
Liabilities for crude oil and petroleum product importation	(5,929)	(4,150)	5,929	4,150
	P5,637	P3,946	(P5,637)	(P3,946)

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

Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P180 and P13 in 2010 and 2009, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. There is no impact on the Group's other income.

Interest Rate Risk Table

As at December 31, 2010 and 2009, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

2010	<1 year	1-<2 years	2-<3 years	3-<4 years	4-<5 years	>5 years	Total
Fixed rate							
Philippine peso denominated Interest rate	P6,963 6.4	P202 6.4	P48 6.4	P5,248 6.4	P48 6.4	P24,511 6.4	P37,020
Floating rate							
Philippine peso denominated Interest rate	1,267 net 1M	600 net 1M	600 net 1M	-	-	-	2,467
US\$ denominated (expressed in Php) Interest rate*	3,459 3,6	3,459 3,6	3,458 3,6	3,458 3,6	1,729 3,6	-	15,563
	P11,689	P4,261	P4,106	P8,706	P1,777	P24,511	P55,050

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

2009	<1 year	1-<2 years	2-<3 years	3-<4 years	4-<5 years	>5 years	Total
Fixed rate							
Philippine peso denominated Interest rate	P664 6.4	P6,963 6.4	P202 6.4	P48 6.4	P5,248 6.4	P4,560 6.4	P17,685
Floating rate							
Philippine peso denominated Interest rate	666 3-mo.	667 3-mo.	-	-	-	-	1,333
	P1,330	P7,630	P202	P48	P5,248	P4,560	P19,018

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Group regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Group credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by Marketing and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the consolidated statement of financial position or in the notes to the consolidated financial statements, as summarized below:

	Note	2010	2009
Cash in bank and cash equivalents	6	P40,358	P9,884
Derivative assets	7	34	39
Trade and other receivables	9	24,266	29,696
Due from affiliates	14	22,447	-
Long-term receivables	14	122	189
		P87,227	P39,808

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

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

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 9). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, and cash bonds valued at P2,736 and P2,624 as of December 31, 2010 and 2009, respectively. These securities may only be called on or applied upon default of customers.

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

The credit risk exposure of the Group based on TAR as of December 31, 2010 and 2009 are shown below (Note 9):

	Neither Past Due Nor Impaired	Past Due but Not Impaired	Impaired	Total
December 31, 2010				
Reseller	P10	P53	P40	P103
Lubes	281	11	25	317
Gasul	661	172	122	955
Industrial	7,792	774	717	9,283
Others	3,974	134	134	4,242
	P12,718	P1,144	P1,038	P14,900

	Neither Past Due Nor Impaired	Past Due but Not Impaired	Impaired	Total
December 31, 2009				
Reseller	P44	P54	P28	P126
Lubes	238	39	17	294
Gasul	656	164	48	868
Industrial	6,823	1,388	629	8,840
Others	2,789	144	58	2,991
	P10,550	P1,789	P780	P13,119

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

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

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

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

Below is the credit quality profile of the Group's TAR as of December 31, 2010 and 2009:

	Trade Accounts Receivables per Class			Total
	Class A	Class B	Class C	
December 31, 2010				
Reseller	(P29)	P107	P26	P104
Lubes	113	159	44	316
Gasul	419	244	292	955
Industrial	2,527	5,711	1,045	9,283
Others	3,640	538	64	4,242
	P6,670	P6,759	P1,471	P14,900
December 31, 2009				
Reseller	(P206)	P313	P21	P128
Lubes	67	190	38	295
Gasul	323	319	226	868
Industrial	2,497	4,917	1,426	8,840
Others	2,506	464	18	2,988
	P5,187	P6,203	P1,729	P13,119

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2010 and 2009.

	Within 3 months	After 3	After 6	After 1 year	Total
		months but not more than 6 months	months but not more than 12 months	but not more than 5 years	
2010					
Current financial liabilities:					
Short-term loans	P32,457	P-	P-	P-	P32,457
Liabilities for crude oil and petroleum product	11,194	-	-	-	11,194
Trade and other payables (excluding specific taxes and other taxes payable)	5,507	324	350	-	6,181
Current portion of long-term debt	426	2,203	8,888	-	11,517
Total current financial liabilities	49,584	2,527	9,238	-	61,349
Noncurrent financial liabilities:					
Long-term debt	-	-	-	42,885	42,885
Cash bonds	-	-	-	275	275
Cylinder deposits	-	-	-	274	274
Other noncurrent liabilities	-	-	-	60	60
Total noncurrent financial liabilities	-	-	-	43,494	43,494
	P49,584	P2,527	P9,238	P43,494	P104,843
2009					
Current financial liabilities:					
Short-term loans	P42,744	P-	P-	P-	P42,744
Liabilities for crude oil and petroleum product	7,529	-	-	-	7,529
Trade and other payables (excluding specific taxes and other taxes payable)	4,033	11	10	13	4,067
Current portion of long-term debt	700	596	-	-	1,296
Total current financial liabilities	55,006	607	10	13	55,636
Noncurrent financial liabilities:					
Cash bonds	-	-	-	245	245
Long-term debt	-	-	-	17,596	17,596
Cylinder deposits	-	-	-	200	200
Other noncurrent liabilities	-	-	-	66	66
Total noncurrent financial liabilities	-	-	-	18,107	18,107
	P55,006	P607	P10	P18,120	P73,743

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

To minimize the Group's risk of potential losses due to volatility of international crude and product prices, the Group implemented commodity hedging for petroleum products. The hedging authority approved by the BOD is intended to: (a) protect margins of MOPS (Mean of Platts of Singapore)-based sales and (b) protect product inventories from downward price risk. Hedging policy (including the use of commodity price swaps, buying of put options, and use of collars and 3-way options; with collars and 3-way options starting in March 2008) developed by the Commodity Risk Management Committee is in place. Decisions are guided by the conditions set and approved by the Group's management.

Other Market Price Risk

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

Capital Management

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

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

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

	2010	2009
Total assets	P161,816	P112,742
Total liabilities	108,472	75,558
Total equity	53,344	37,184
Debt to equity ratio	2.0:1	2.0:1

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

The Group is not subject to externally imposed capital requirements.

34. Financial Assets and Financial Liabilities

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

	Note	2010		2009	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):					
Cash and cash equivalents	6	P43,984	P43,984	P12,985	P12,985
Trade and other receivables	9	24,266	24,266	29,696	29,696
Due from affiliates	14	22,447	22,447	-	-
Long-term receivables	14	122	122	189	189
Loans and receivables		90,819	90,819	42,870	42,870
AFS financial assets	8	1,161	1,161	1,355	1,355
Financial assets at FVPL	7	193	193	169	169
Derivatives assets	7	34	34	39	39
FA at FVPL		227	227	208	208
Total financial assets		P92,207	P92,207	P44,433	P44,433

	Note	2010		2009	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities (FL):					
Short-term loans	15	P32,457	P32,457	P42,744	P42,744
Liabilities for crude oil and petroleum product importation		11,194	11,194	7,529	7,529
Trade and other payables (excluding specific taxes and other taxes payable)		6,181	6,181	4,067	4,067
Long-term debt including current portion	17	54,402	54,402	18,892	14,970
Cash bonds	19	275	275	245	245
Cylinder deposits	19	274	274	200	200
Other noncurrent liabilities	19	60	60	66	66
FL at amortized cost		104,843	104,843	73,743	69,821
Derivative liabilities		30	30	1	1
Total financial liabilities		P104,873	P104,873	P73,744	P69,822

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

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

Derivatives. The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Mark-to-market valuation in 2010 and 2009 of commodity hedges were based on the forecasted crude and product prices by Mitsui & Co. Commodity Risk Management Ltd. (MCRM), an independent trading group.

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

Long-term Debt - Floating Rate. Variable rate loans are repriced every three months, the carrying value approximates its fair value because of recent and regular re-pricing based on current market rates.

Cash Bonds. Fair value is estimated as the present value of all future cash flows discounted using the market rates for similar types of instruments. Discount rates used in 2010 and 2009 are 5.99% and 5.11%, respectively.

Derivative Financial Instruments

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

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

Freestanding Derivatives

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

Commodity Swaps

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2011. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price.

Total outstanding equivalent notional quantity covered by the commodity swaps were 1.5 barrels and 0.5 barrel for 2010 and 2009, respectively. The estimated net receipts for these transactions amounted to P32 and P5.5, respectively.

Commodity Options

As of December 31, 2010, the Group has outstanding 3-way options designated as hedge of forecasted purchases of crude oil with a notional quantity of 2.78 million barrels.

The call and put options can be exercised at various calculation dates in 2011 with specified quantities on each calculation date. The estimated amount charged to profit or loss on these call and put options as of December 31, 2010 amounted to P234.

Outstanding hedge in 2009 with notional quantities of 2.4 MMB have an actual net receipts of P621.8.

Embedded Derivatives

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

Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative transactions in 2010 and 2009 are as follows:

	Note	Mark-to-market Gain (Loss)
Fair value at January 1, 2010		P37
Net changes in fair value during the year	25	(98)
Fair value of settled instruments		65
Balance at December 31, 2010		P4
Fair value at January 1, 2009		P55
Net changes in fair value during the year	25	(409)
Fair value of settled instruments		391
Balance at December 31, 2009		P37

Fair Value Hierarchy

In accordance with PFRS 7, financial assets and liabilities measured at fair value in the statement of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2010 and 2009. The different levels have been defined as follows:

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

2010	Level 1	Level 2	Total
FVPL	P193	P-	P193
Derivative assets	-	34	34
AFS financial assets	-	1,161	1,161
2009	Level 1	Level 2	Total
FVPL	P169	P-	P169
Derivative assets	-	39	39
AFS financial assets	-	1,355	1,355

As of December 31, 2010 and 2009, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

35. Registration with the Board of Investments (BOI)

Isomerization and Gas Oil Hydrotreater Units

On January 7, 2004, the BOI approved Petron's application under RA 8479, otherwise known as the Downstream Oil Industry Deregulation Act (RA 8479), for new investments at its Bataan Refinery for an Isomerization Unit and a Gas Oil Hydrotreater ("Project"). The BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from January 2005 for the Project and March 2005 for LVN Isomerization or actual start of commercial operations, whichever is earlier.
- b. Duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Tax credit on domestic capital equipment on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- d. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.
- e. Exemption from real property tax on production equipment or machinery.
- f. Exemption from contractor's tax.

Mixed Xylene, Benzene, Toluene (BTX) and Propylene Recovery Units

On October 20, 2005, Petron registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order 226) as: (1) a non-pioneer, new export producer status of Mixed Xylene; (2) a pioneer, new export product status of Benzene and Toluene; and (3) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 70% of the production of the mentioned petrochemical products every year except for the produced propylene.

As a registered enterprise, Petron is entitled to the following benefits on its production of petroleum products used as petrochemical feedstock:

- a. ITH: (1) for four years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Mixed Xylene subject to base figure of 120,460 metric tons per year representing Petron's highest attained production volume for the last three (3) years; (2) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (3) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.
- b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for ten years from start of commercial operations.
- c. Simplification of custom procedures.
- d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Custom rules and regulations provided firm exports at least 70% of production output.
- e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten year period from date of registration.
- f. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.
- g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% production.
- h. Petron may qualify to import capital equipment, spare parts, and accessories at zero duty from date of registration up to June 5, 2006 pursuant to Executive Order (EO) No. 313 and its Implementing Rules and Regulations.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit

On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment at its Bataan Refinery for the PetroFCC (Note 12). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

- a. ITH for five years without extensions or bonus year from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the % share of product that are subject to retooling.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the three percent (3%) duty imposed on the imported counterpart.
- d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.
- f. Exemption from real property tax on production equipment or machinery.
- g. Exemption from contractor's tax.

Grease Manufacturing Plant

In December 2005, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization of the firm's Grease Manufacturing Plant in Pandacan, Manila. The BOI is extending the following major incentives:

- a. ITH for a period of five years without extension or bonus year from March 2006 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to base figure of 845 metric tons of grease product representing Petron's highest attained sales volume prior to rehabilitation.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Tax credit on domestic capital equipment on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.
- f. Exemption from real property tax on production equipment or machinery.
- g. Exemption from contractor's tax.

70 MW Coal-Fired Power Plant (Limay, Bataan)

On November 3, 2010, Petron registered with the BOI as new operator of a 70 MW Coal-Fired Power Plant on a pioneer status with non-pioneer incentives under the Omnibus Investments Code of 1987 (Executive Order No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

- a. ITH for four years from July 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration limited to the revenue generated from the electricity sold to the grid.
- b. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.
- c. Zero percent (0%) duty from date of registration up to June 16, 2011 for imported capital equipment, spare parts and accessories.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

36. Segment Information

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

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

- Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.
- Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all others forms and lines of insurance authorized by law, except life insurance.
- Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.
- Export sales of various petroleum and non-fuel products to other Asian countries such as South Korea, China, Taiwan, Singapore, Cambodia, Japan, India and Malaysia.

Segment Assets and Liabilities

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

Inter-segment Transactions

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

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue of the Group.

The following tables present revenue and income information and certain asset and liability information regarding the business segments for the years ended December 31, 2010, 2009 and 2008.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Year Ended December 31, 2010						
Revenue:						
External sales	P225,072	P-	P-	P4,022	P-	P229,094
Inter-segment sales	11,059	139	327	-	(11,525)	-
Segment results	11,975	112	252	124	48	12,511
Net income	8,367	169	50	161	(823)	7,924
Assets and liabilities:						
Segment assets	163,823	2,086	2,935	1,097	(8,153)	161,788
Segment liabilities	108,665	559	2,027	303	(5,040)	106,514
Other segment information:						
Property, plant and equipment	31,753	-	1	379	2,824	34,957
Depreciation and amortization	3,419	-	-	65	(1)	3,483
Year Ended December 31, 2009						
Revenue:						
External sales	173,157	-	-	3,374	-	176,531
Inter-segment sales	2,182	131	194	-	(2,507)	-
Segment results	8,520	101	137	112	330	9,200
(Forward)						

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Net income	3,982	161	32	104	(20)	4,259
Assets and liabilities:						
Segment assets	110,272	1,966	2,840	1,262	(3,605)	112,735
Segment liabilities	74,862	277	1,981	537	(2,463)	75,194
Other segment information:						
Property, plant and equipment	31,351	-	-	661	2,772	34,784
Depreciation and amortization	3,493	-	-	79	-	3,572
Year Ended December 31, 2008						
Revenue:						
External sales	263,393	-	-	4,283	-	267,676
Inter-segment sales	3,219	151	191	-	(3,561)	-
Segment results	(2,562)	124	150	119	317	(1,852)
Net income (loss)	(4,347)	155	115	92	65	(3,920)
Assets and liabilities:						
Segment assets	107,883	2,036	2,619	1,507	(3,165)	110,880
Segment liabilities	78,042	535	1,792	881	(2,363)	78,887
Other segment information:						
Property, plant and equipment	33,149	1	-	704	2,574	36,428
Depreciation and amortization	3,156	-	-	72	-	3,228

Intersegment sales transactions amounted to P11,525, P2,507 and P3,561 for the year ended December 31, 2010, 2009 and 2008, respectively, which amounts are less than 6% of the total revenues for the years presented.

The following table presents additional information on the petroleum business segment of the Group for the years ended December 31, 2010, 2009 and 2008:

	Reseller	Lube	Gasul	Industrial	Others	Total
Year Ended December 31, 2010						
Revenue	P92,583	P2,104	P15,054	P90,311	P36,079	P236,131
Property, plant and equipment	4,524	345	181	43	26,660	31,753
Capital expenditures	169	1	8	2	2,615	2,795
Year Ended December 31, 2009						
Revenue	74,954	2,079	12,298	68,438	17,570	175,339
Property, plant and equipment	4,296	427	268	64	26,296	31,351
Capital expenditures	575	573	263	55	(16)	1,450
Year Ended December 31, 2008						
Revenue	102,980	2,087	14,993	96,844	49,707	266,611
Property, plant and equipment	4,138	489	255	46	28,221	33,149
Capital expenditures	288	3	58	5	5,722	6,076

Geographical Segments

Segment assets by geographical location as well as capital expenditure on property, plant and equipment and on intangible assets by geographical location are not separately disclosed since the total segments assets of the segment located outside the country. Ovincor and PSTPL, is less than 1% of the consolidated assets of all segments as of the years ended 2010, 2009 and 2008.

The following table presents revenue information regarding the geographical segments of the Group for the years ended December 31, 2010, 2009 and 2008.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
Year Ended December 31, 2010						
Revenue						
Local	P206,070	P76	P327	P4,022	(P3,296)	P207,199
Export/international	30,061	62	-	-	(8,228)	21,895
Year Ended December 31, 2009						
Revenue						
Local	162,565	70	194	3,374	(2,507)	163,696
Export/international	12,774	61	-	-	-	12,835
Year Ended December 31, 2008						
Revenue						
Local	229,769	94	191	4,283	(3,561)	230,776
Export/international	36,843	57	-	-	-	36,900

37. Events After the End of the Reporting Period

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

On February 2, 2011, the BOD approved cash dividend to preferred stockholders on record as of February 21, 2011 with payment date of March 7, 2011.

38. Other Matters

a. Petron has unused letters of credit totaling approximately P9,236, P33 and P70 as of end of 2010, 2009 and 2008, respectively.

b. Tax Credit Certificates Related Cases

In 1998, the Philippine Bureau of Internal Revenue (“BIR”) issued a deficiency excise tax assessment against the Parent Company. The assessment relates to the Parent Company’s use of P659 worth of Tax Credit Certificates (“TCCs”) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Parent Company by suppliers as payment for fuel purchases. The Parent Company is contesting the BIR’s assessment before the Philippine Court of Tax Appeals (“CTA”). In July 1999, the CTA ruled that, as a fuel supplier of Board of Investments-registered companies, the Parent Company is a qualified transferee of the TCCs. Following an unfavorable ruling from the CTA En Banc, Petron filed an appeal to the Supreme Court. A Resolution was issued by the Supreme Court (1st Division) on September 13, 2010 denying with finality Commission of Internal Revenue’s motion for reconsideration of the Decision dated July 28, 2010.

In November 1999, the BIR issued a P284 assessment against the Parent Company for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance (“DOF”) of tax debit memos, the related TCCs and their assignment to the Parent Company. The Parent Company contested the assessment before the CTA. In August 2006, the CTA denied the Parent Company’s petition, ordering it to pay the BIR P580 representing the P284 unpaid deficiency excise from 1995 to 1997, and 20% interest per annum computed from December 4, 1999. In July 2010, the Philippine Supreme Court (“SC”) nullified the assessment against the Parent Company and declared the Parent Company as a valid transferee of the TCCs. The BIR filed a motion for reconsideration, which remains pending.

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

There are duplications in the TCCs subject of the three assessments described above. Excluding these duplications, the aggregate deficiency excise taxes, excluding interest and penalties, resulting from the cancellation of the subject TCCs amount to P911.

c. Pandacan Terminal Operations

In November 2001, the City of Manila enacted City Ordinance No. 8027 (“Ordinance 8027”) reclassifying the areas occupied by the oil terminals of the Parent Company, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, the Parent Company, together with Shell and Chevron, entered into a Memorandum of Understanding (“MOU”) with the City of Manila and 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, Social Justice Society (“SJS”) filed a petition with the SC against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, the Parent Company filed a petition with the Regional Trial Court (“RTC”) to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

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

However, on March 7, 2007, in the case filed by SJS, the SC rendered a decision (the “March 7 Decision”) directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, the Parent Company, together with Shell and Chevron, filed motions with the SC seeking intervention and reconsideration of the March 7 Decision, on the ground that the SC failed to consider supervening events, notably (i) the passage of Ordinance 8119 which supersedes Ordinance 8027, as well as (ii) the RTC orders preventing the implementation of Ordinance 8027. The Parent Company, Shell, and Chevron also noted the possible ill-effects on the entire country arising from the sudden closure of the oil terminals in Pandacan.

On February 13, 2008, the SC resolved to allow the Parent Company, Shell and Chevron to intervene, but denied their motion for reconsideration. In its February 13 resolution (the “February 13 Resolution”), the Supreme Court also declared Ordinance 8027 valid, dissolved all existing injunctions against the implementation of the Ordinance 8027, and directed the Parent Company, Shell and Chevron to submit their relocation plans to the RTC. The Parent Company, Shell and Chevron have sought reconsideration of the February 13 Resolution. In compliance with the February 13 Resolution, the Parent Company, Shell and Chevron have submitted their relocation plans to the RTC.

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

In June 2009, petitions were filed with the SC, seeking the nullification of Ordinance 8187 and enjoining its implementation. These petitions are still pending.

d. Oil Spill Incident in Guimaras

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

e. Bataan Real Property Tax Cases

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

The Parent Company timely contested the assessments by filing appeals with the Local Board of Assessment Appeals (“LBAA”), and posted the necessary surety bonds to stop collection of the assessed amount.

However, with regard to the third assessment, notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer, acting on the basis of the Final Notice of Delinquent Real Property Tax relating to the third assessment, proceeded with the publication of the public auction of the assets of the Parent Company, which was set for October 17, 2007. Due to the Provincial Treasurer's refusal to cancel the auction sale, the Parent Company filed a complaint for injunction on October 8, 2007 before the RTC to stop the auction sale. A writ of injunction stopping the public auction until the final resolution of the case was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed by the Provincial Treasurer before the LBAA and the motion was granted by the LBAA in December 2007. On appeal by the Parent Company, the Central Board of Assessment Appeals ("CBAA"), in August 2008, remanded the case to the LBAA for factual determination, effectively granting the Parent Company's appeal and reversing the LBAA's dismissal of the case.

The RTC issued a Decision dated June 25, 2010 upholding Petron's position and declared null and void the demand on Petron for the payment of realty taxes in the amount of P1,731 made by the Provincial Assessor of Bataan and the levy of the properties of Petron. The Court issued a Writ of Prohibition permanently prohibiting, preventing and restraining the Provincial Treasurer of Bataan from conducting a public auction of the properties of Petron or selling the same by auction, negotiated sale, or any act of disposition pending the finality of the disposition by the LBAA or CBAA, as the case maybe, on the pending appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

f. Other Proceedings

The Parent 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 Parent 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.

39. Prior Period Adjustments

In 2010, the Group changed its accounting policy on accounting for its retirement benefit plan to align the Group's policy to that of SMC. Previously, the Group recognized all actuarial gains and losses ("AGL"), arising from changes in the assumptions used by the actuary in calculating the retirement liability at reporting dates, in other comprehensive income as an allowed alternative of PAS 19 *Employee Benefits*. The change in accounting policy resulted in the application of the "corridor approach" in PAS 19 whereby the Group shall now recognize AGL in profit or loss over the remaining working lives of the employees participating in the plan when the net cumulative unrecognized AGL at the end of the previous reporting year exceed the greater of 10% of the present value of the defined benefit obligation or the fair value of the plan assets.

The change in accounting policy was accounted for retrospectively and had an insignificant effect on the Group's earnings per share.

Comparatives have been restated and outlined below to present the impact of the change in accounting policy to previously reported financial position and financial performance of the Group as of and for the year ended December 31, 2009 and January 1, 2009.

Reconciliation of retained earnings and net income follows:

	Retained Earnings		Net income for 2009
	January 1, 2009	December 31, 2009	
As previously reported	P23,776	P28,014	P4,257
Effect of adoption of the "corridor" approach	(510)	(508)	2
As restated	P23,266	P27,506	P4,259

Reconciliation of asset, liability, equity and expense accounts as of January 1, 2009 and December 31, 2009 follows:

Account Description	As Previously Reported	Effect of Recognition	As Restated	As Previously Reported	Effect of Recognition	As Restated
	January 1, 2009			December 31, 2009		
Statement of Financial Position						
Assets						
Deferred tax assets - net	P885	P10	P895	P-	P-	P-
Other noncurrent assets - net	925	(33)	892	1,329	(451)	878
Liability						
Deferred tax liabilities - net	P8	P -	P8	P514	(P150)	P364
Retirement benefits liability	-	-	-	-	50	50
Equity						
Retained earnings	P23,776	(P510)	P23,266	P28,014	(P508)	P27,506
Other reserves	(473)	487	14	(98)	157	59
Statement of Income						
Selling and administrative expenses	P5,222	P-	P5,222	P5,751	(P3)	P5,748
Income tax expense (benefit)	1,873	-	1,873	1,491	1	1,492
Statement of Comprehensive Income						
Actuarial gain/ (loss) on defined pension benefit plan	(P64)	P64	P-	P330	(P330)	P-

The "Other Noncurrent Assets - net" adjustments pertain to Retirement assets (Note 14).

List of Banks and Financial Institutions

- Allied Banking Corporation
- Amalgamated Investment Bancorporation
- Asia United Bank
- Australia and New Zealand Banking Group, Ltd.
- Ayala Life Assurance
- Banco de Oro Unibank, Inc.
- Bank of Bermuda
- Bank of Commerce
- Bank of the Philippine Islands
- Barclays Capital
- BDO Capital and Investment Corp.
- BDO Private Bank
- BNP Paribas Corporate & Investment Banking
- BPI Capital Corporation
- China Banking Corporation
- Chinatrust Commercial Bank Corporation
- Citibank, N. A.
- Credit Agricole Corporate & Investment Bancorporation
- Credit Suisse
- Deutsche Bank
- DZ Bank AG Deutsche Zentral-Genossenschaftsbank
- Development Bank of the Philippines
- East West Bank
- First Metro Investment Corporation
- ING Bank N. V., Manila Branch
- Insular Life Assurance Co.
- JP Morgan Chase Bank, N.A.
- Land Bank of the Philippines
- Maybank Philippines, Inc.
- Maybank International Ltd.
- Mega International Commercial Bank Co., Ltd.
- Metropolitan Bank and Trust Company
- Mizuho Corporate Bank, Ltd.
- Multinational Investment Bancorporation
- National Commercial Bank
- Norddeutsche Landesbank Girozentrale
- Philippine Business Bank
- Philippine Bank of Communications
- Philippine Commercial Capital Inc.
- Philippine National Bank
- Pioneer Life, Inc.
- RCBC Capital Corporation
- Rizal Commercial Banking Corporation
- Robinsons Savings Bank
- SB Capital Investment Corporation
- Security Bank Corporation
- Societe Generale Corporate & Investment Banking
- Sony Life
- Standard Chartered Bank
- Sumitomo Mitsui Banking Corp.
- The Bank of Bermuda, Ltd.
- The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- The Hongkong and Shanghai Banking Corporation, Ltd.
- Union Bank of the Philippines
- United Coconut Planters Bank

Terminals and Depots

Luzon

APARRI

J.P.de Carreon St.
Punta Aparri, Cagayan

BATANGAS

Bo. Mainaga, Mabini, Batangas

CALAPAN

Roxas St.Brgy.Ilay
Calapan City

LIMAY

Petron Bataan Refinery
Limay, Bataan

NAVOTAS

PFDA CMPD., Navotas City

PALAWAN

Parola,Brgy Maunlad
Puerto Princesa City

PANDACAN

Jesus St., Pandacan Manila

PASACAO

Brgy.Camangi
Pasacao Camarines Sur

PORO

Poro Point, San Fernando, La Union

ROSARIO

Gen. Trias, Rosario, Cavite

SAN JOSE

1020 A Mabini St.
San Jose, Occidental Mindoro

Visayas

AMLAN

Tandayag, Amlan, Negros Oriental

BACOLOD

Bo. San Patricio
Bacolod City

ILOILO

Lapuz, Iloilo City

ISABEL

LIDE, Isabel, Leyte

MACTAN

MEPZ, Lapu-lapu City

MANDAUE

Looc, Mandaue City

ORMOC

Bo. Linao, Ormoc City

ROXAS

Arnaldo Blvd., Culasi, Roxas City

TACLOBAN

Anibong, Tacloban City

TAGBILARAN

Graham Ave., Tagbilaran City

Mindanao

DAVAO

Km. 9, Bo. Pampanga, Davao City

BAWING

Purok Cabu, Bawing
General Santos City

ILIGAN

Bo. Tuminobo, Iligan City

JIMENEZ

Jimenez, Misamis Occidental

NASIPIT

Talisay, Nasipit
Agusan del Norte

TAGOLOAN

Tagoloan, Misamis Oriental

ZAMBOANGA

Bgy. Campo Islam
Lower Calarian, Zamboanga City

Airport Installation

DAVAO

Davao Airport

ILOILO

Brgy. Airport
Mandurriao, Iloilo City

LAOAG

Laoag Airport

NAIA

JOCASP, CPD, NAIA, Pasay City

LPG Operations

GASUL-PASIG

Bo. Ugong, Pasig City

LEGASPI

Lakandula Drive
Bgy Bonot, Legaspi City

GASUL-SAN FERNANDO

San Fernando, Pampanga

Calamba Warehouse

CALAMBA

Calamba, Laguna

Product Lists

Fuels

Automotive Fuels

Petron Blaze
Petron Blaze 100 (replaced
Petron Blaze)
Petron XCS
Petron XCS E-10
Petron Xtra Unleaded
Petron Xtra Premium E-10
Petron Pinoy Gasoline
Regular Unleaded
Petron Turbo Diesel
Petron Diesel Max
Petron Xtend Autogas

Industrial Fuels

Petron Fuel Oil
IF-1
LSFO-1
Intermediate Fuels
Special Fuel Oil
Petron Industrial Diesel Fuel

Aviation Fuels

Aviation Gasoline
Jet A- I

Household Fuels

Gasul
Gaas

Automotive Lubricating Oils

Diesel Engine Oils

Rev-X All Terrain
Rev-X Trekker
Rev-X Hauler
Rev-X HD
Petron HDX
Petron XD3
Petron XD 2040
Petron 2040
Petron Railroad Extra

Gasoline Engine Oils

Ultron Race
Ultron Rallye
Ultron Touring
Ultron Extra
Petron MO

Motorcycle Oils

Petron Sprint 4T Enduro
Petron Sprint 4T Rider
Petron Sprint 4T Extra
2T Premium
2T Enviro
2T Autolube
2T Powerburn

Automotive Gear Oils

Petron GX
Petron GEP
Petron GST

Automotive Transmission Fluids

Petron ATF Premium
Petron TF 38
Petron TDH 50

Industrial Lubricating Oils

Turbine, Hydraulic and Circulating Oils

Hydrotur AWX
Hydrotur AW
Hydrotur AW (GT)
Hydrotur EP 46
Hydrotur N 100
Hydrotur R
Hydrotur SW 68
Hydrotur SX 32
Hydrotur SX 68
Hydrotur SX 220
Hydrotur T
Hydrotur TEP

Industrial Gear Oils

Hypex EP (Oil-Based)
Hypex EP (Asphalt-Based)
Milrol 5K
Gearfluid
Gearkote

Cutting Oils

Turnol
Petrokut 10
Petrokut 27

Refrigeration Oils

Zerflo 68
Suniso

Other Industrial Lubricating Oils

Petrocyl S
Petrocyl
Airlube
Spinol 15
Spinol 10E
Petrosine 68
Voltran 60

Marine Lubricating Oils

Marine Cylinder Oils

Petromar DCL 7050
Petromar DCL 4000 Series

Marine Trunk Piston Engine Oils

Petromar XC 5540
Petromar XC 5040
Petromar XC 4040
Petromar XC 3000 Series
Petromar XC 2000 Series
Petromar XC 1500 Series
Petromar XC 1000 Series

Other Marine Lubricants

Petromar 65
Petromar HD Marine Series

Greases

Regular Performance Greases

Petrogrease MP
Petrogrease XX

Premium Performance Greases

Molygrease EP2
Molygrease Premium
Petrogrease EP
Petrogrease Premium

High Temperature Greases

Molygrease EP 1P and EP 2P
Petrogrease EP 290 and EP
375
Petrogrease HT

Complex Greases

Petrogrease Lithium Complex
Petrogrease Lithium Complex
with Moly

Food Grade Greases

Petrogrease Food Grade

Asphalts

Penetration Asphalt

Petropen

Cutback Asphalt

Petropen CB

Emulsified Asphalt

Petromul CSS -1

Blown Asphalts

Asphaltseal
Asphalt Joint Sealer

Special Products

Process Oils

Process Oils
Printsol 600
Stemol
Jute Batching Oil
Aldro Oil 460
Rubbex 130

Heat Transfer Oil

Petrotherm 32

Cleaning Agent

Greasolve
Carbon Flush

Flushing Oil

STM

Sealing Lubricant

Dust Stop Oil

Protective Coatings

Petrokote 500

Petrokote 392
Marinekote
Marinekote SS
Autokote
Cablelube
Cablekote

Others

Petron Farm Trac Oil
Petron Marine HD Oil
Petron Regatta
Bull's Eye

Aftermarket Specialties

PetroMate Specialties

PetroMate Oil Saver
PetroMate Oil Improver
PetroMate Gas Saver
PetroMate Diesel Power
Booster
PetroMate Engine Flush
PetroMate Super Coolant
PetroMate Clean N' Shine
PetroMate Penetrating Oil
PetroMate Greaseaway
PetroMate Brake and Clutch
Fluid

Aviation Lubricants

Braycote 622

Nyco Grease GN 22
Hydraunycoil FH 51
Royco 481
Aviation Oil EE
Invarol FJ 13
Exxon Turbo Oil 2389
Exxon Turbo Oil 2380
Univis J-13
Turbonycoil 35 M
Turbonycoil 600

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Shareholder Services and Assistance

For questions or comments regarding dividend payments, change of address, account status, loss or damaged stock certificates, please get in touch with:

SMC Stock Transfer Service Corporation
40 San Miguel Avenue
1550 Mandaluyong City
Trunkline: (632) 632 3450 to 52
Fax No.: (632) 632 - 3535
Email Address: smc_stsc@smg.sanmiguel.com.ph

Institutional Investors

Petron Corporation welcomes inquiries from analysts, financial community and institutional investors. Please write or call:

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