C O V E R S H E E T

3 1 1 7 1
S. E. C. Registration Number

P E T R O N   C O R P O R A T I O N

(Company's Full Name)

S M C   H E A D   O F F I C E   4 0   S A N   M I G U E L
A V E.   M A N D A L U Y O N G   C I T Y

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

ATTY. JOEL ANGELO C. CRUZ	886-3888
Contact Person	Company Telephone Number

1 2 - 1 0	SEC Form 17-Q (2nd Quarter 2011)	0 7 1 2
Month Day	FORM TYPE	Month Day
Fiscal Year		Annual Meeting

N/A
Secondary License Type, if Applicable

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders	Domestic	Foreign
		N/A

To be accomplished by SEC Personnel concerned

Fiscal Numer

LCU

Document I. D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2011.

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

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

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

6. (SEC Use Only)
Industry Classification Code:

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

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

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

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

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

....

....

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

Yes [X]   No [ ]

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

Philippine Stock Exchange	Common and Preferred Stocks

12. Indicate by check mark whether the Registrant:

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

Yes [X]   No [ ]

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

Yes [ ]   No [X]

TABLE OF CONTENTS

PETRON

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 and DECEMBER 31, 2010
(Amounts in Million Pesos)

	Note		June 30, 2011 Unaudited		December 31, 2010 Audited
ASSETS					
Current Assets					
Cash and cash equivalents	11,12	P	22,552	P	43,984
Financial assets at fair value through profit or loss	11,12		195		227
Available-for-sale financial assets	11,12		145		178
Trade and other receivables - net	11,12		23,029		24,266
Inventories			41,707		28,145
Other current assets			6,699		4,286
			94,327		101,086
Assets held for sale	5		776		823
Total Current Assets			95,103		101,909
Non-Current Assets					
Property, plant and equipment - net	4		39,684		34,957
Investment in associates	9		1,392		804
Investment properties			118		119
Available-for-sale financial assets	11,12		1,041		983
Deferred tax assets	2		129		28
Other noncurrent assets	11,12		23,919		23,016
Total Noncurrent Assets			66,283		59,907
		P	161,386	P	161,816
LIABILITIES AND EQUITY					
Current Liabilities					
Short-term loans	11,12	P	24,155	P	32,457
Liabilities for crude oil and petroleum product importation	11,12		16,939		11,194
Trade and other payables	11,12		6,688		6,744
Derivative liabilities	11,12		6		30
Current portion of long-term debt - net	11,12		11,007		11,517
Income tax payable			586		14
Total Current Liabilities			59,381		61,956
Noncurrent Liabilities					
Long-term debt - net of current portion	11,12		40,606		42,885
Retirement benefits liability			249		249
Deferred tax liabilities			1,641		1,958
Asset retirement obligation			861		815
Other noncurrent liabilities	12		668		609
Total Noncurrent Liabilities			44,025		46,516
Equity Attributable to Equity Holders of the Parent Company					
Capital stock			9,475		9,475
Additional paid-in capital			9,764		9,764
Retained earnings			38,364		33,748
Other reserves			88		83
Total Equity Attributable to Equity Holders of the Parent Company			57,691		53,070
Non-controlling interest			289		274
Total Equity			57,980		53,344
		P	161,386	P	161,816

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

Certified by:

EFREN P. GABRILLO
Assistant Vice President - Controllers

PETRON

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE PERIOD ENDED JUNE 30, 2011 and 2010
(Amounts in Million Pesos, Except Per Share Amounts)
(UNAUDITED)

	Note	April to June 2011	April to June 2010	January to June 2011	January to June 2010
SALES	2	70,847	59,471	P 134,897	P 115,354
COST OF GOODS SOLD		65,508	54,465	121,037	105,867
GROSS PROFIT		5,339	5,006	13,860	9,487
SELLING AND ADMINISTRATIVE EXPENSES		(1,547)	(1,503)	(3,072)	(2,839)
INTEREST INCOME		324	104	699	162
INTEREST EXPENSE		(1,304)	(928)	(2,623)	(1,871)
SHARE IN NET LOSS OF AN ASSOCIATE		(51)	-	(103)	-
OTHER INCOME (CHARGES) - net		702	(1,445)	(710)	(1,082)
INCOME BEFORE INCOME TAX		3,463	1,234	8,051	3,857
PROVISION FOR INCOME TAX		852	205	2,006	897
NET INCOME		P 2,611	P 1,029	P 6,045	P 2,960
Attributable to:					
Equity holders of the parent company	7	2,605	1,021	P 6,030	P 2,942
Non-controlling interest		6	8	15	18
		P 2,611	P 1,029	P 6,045	P 2,960
BASIC DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	7	0.25	0.08	P 0.59	P 0.29

Note: See accompanying Management Discussion and Analysis and Selected Notes to Consolidtaed Financial Statements.

Certified by:

EFREN P. GABRILLO
Assistant Vice President - Controllers

PETRON

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED JUNE 30, 2011 AND 2010
(Amounts in Million Pesos)
(UNAUDITED)

	April to June 2011	April to June 2010	January to June 2011	January to June 2010
NET INCOME	P 2,611	P 1,028	P 6,045	P 2,960
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS - NET OF TAX	88	-	(1)	-
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(11)	6	6	16
OTHER COMPREHENSIVE INCOME - NET OF TAX	77	6	5	16
TOTAL COMPREHENSIVE INCOME	P 2,688	P 1,034	P 6,050	P 2,976
Comprehensive Income Attributable to:				
Equity holders of the Parent Company	P 2,682	P 1,026	P 6,035	P 2,958
Non-controlling Interest	6	8	15	18
	P 2,688	P 1,034	P 6,050	P 2,976

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

Certified by:

EFREN P. GABRILLO
Assistant Vice President-Controllers

PETRON

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED JUNE 30, 2011 AND 2010
(Amounts in Million Pesos)

	Equity Attributable to Equity Holders of the Parent Company								
				Retained Earnings					
	Preferred Stock	Common Stock	Additional paid-in capital	Appropriated	Unappropriated	Other Reserves	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2011 (Audited)	P 100	P 9,375	P 9,764	P 15,554	P 18,194	P 83	P 53,070	P 274	P 53,344
Total comprehensive income					6,030	5	6,035	15	6,050
Appropriation for capital projects				9,618	(9,618)		-		-
Cash dividends *(Note 8)*					(1,414)		(1,414)		(1,414)
Issuance of shares							-		-
Balance at June 30, 2011 (Unaudited)	P 100	P 9,375	P 9,764	P 25,172	P 13,192	P 88	P 57,691	P 289	P 57,980
Balance at January 1, 2010 (Audited)		P 9,375		P 15,492	P 12,522	(P 98)	P 37,291	P 244	P 37,535
Total comprehensive income					2,942	16	2,958	18	2,976
Appropriation for capital projects							-		-
Cash dividends *(Note 8)*					(238)		(238)		(238)
Issuance of shares	100		9,765				9,865		9,865
Balance at June 30, 2010 (Unaudited)	P 100	P 9,375	P 9,765	P 15,492	P 15,226	(P 82)	P 49,876	P 262	P 50,138

Note: See accompanying Management Discussion and Analysis and Selected Notes to Consolidtaed Financial Statements.

Certified by:

EFREN P. GABRILLO
Assistant Vice President-Controllers

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2011 and 2010
(Amounts in Million Pesos)
(UNAUDITED)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 8,051	P 3,857
Adjustments for:		
Share in net loss of an associate	103	
Depreciation and amortization	1,749	1,652
Interest expense	2,623	1,871
Interest income	(699)	(162)
Net unrealized foreign exchange gain	(63)	(172)
Others	(40)	(16)
Operating income before working capital changes	11,724	7,030
Changes in operating assets and liabilities		
Decrease (increase) in assets:		
Receivables	(1,029)	(4,171)
Inventories	(13,562)	(9,385)
Other current assets	(2,405)	(990)
Increase (decrease) in liabilities:		
Liabilities for crude oil and petroleum product importation	5,778	13,577
Accounts payable and accrued expenses	175	224
Provisions for doubtful accounts, inventory obsolescence and others	36	(101)
Interest paid	(2,771)	(1,836)
Income taxes paid	(267)	(53)
Interest received	730	155
Net cash flows provided by (used in) operating activities	**(1,591)**	4,450
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Property, plant and equipment	(6,426)	(2,612)
Decrease (increase) in:		
Other receivables	649	533
Other noncurrent assets	(337)	258
Reductions from (additions to):		
Financial assets at fair value through profit or loss	30	0
Available-for-sale investments	(25)	(9)
Investments	(1,266)	(743)
Net cash flows provided by (used in) investing activities	(7,375)	(2,573)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of loans	29,490	96,855
Payments of:		
Loans	(40,612)	(93,212)
Cash dividends	(1,394)	(239)
Issuance of Preferred Stock	-	9,865
Others	73	40
Net cash flows provided by (used in) financing activities	**(12,443)**	13,309
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(23)**	153
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(21,432)**	15,339
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	43,984	12,985
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 22,552	P 28,324

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

Certified by:

EFREN P. GABRILLO
Assistant Vice President - Controllers

1. Summary of Significant Accounting and Financial Reporting Policies

Petron Corporation and Subsidiaries (collectively referred to as the "Group") prepared its consolidated interim financial statements as of and for the period ended June 30, 2011 and comparative financial statements for the same period in 2010 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, Interim Financial Reporting. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest million (₱000,000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the most recent annual audited financial statements.

<u>Adoption of New Standards, Amendments to Standards and Interpretations</u>
The Financial Reporting Standards Council (FRSC) approved the adoption of new or revised standards, amendments to standards, and interpretations as part of PFRS.

Amendments to Standard and Interpretations Adopted in 2011
Starting January 1, 2011, the Group adopted the following amended PAS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC):

- *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 period 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, of which only the following are applicable to the Goup:

  - 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.

- 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, *Investment 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; (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 the 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 permitted and 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. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted and required to be disclosed.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instuments*, 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 the financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual period beginning on or after July 1, 2010.

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

New or Revised Standards not yet Adopted

- 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 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.

- PFRS 9, *Financial Instruments* (2010). A new version of PFRS 9 issued in October 2010 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 13, 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 is still assessing the impact of the adoption of PFRS 9 (2009) or PFRS 9 (2010) on the consolidated financial statements and therefore, the interim consolidated financial statements do not reflect the impact of the new standard. The Group is evaluating whether it will opt for the early adoption of PFRS 9 (2009) or PFRS 9 (2010) in its consolidated financial statements which will result in a change in the classification and measurement of the Group's financial assets and liabilities.

2. 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:

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

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

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

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

e. Export sales of various petroleum and non-fuel products to other Asian countries such as South Korea, Taiwan, China, Thailand, Indonesia, Singapore, Cambodia, Japan, India, UAE, Pakistan 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.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of June 30, 2011 and December 31, 2010 and for the six months ended June 30, 2011 and 2010. Segment assets and liabilities exclude deferred tax assets and deferred tax liabilities:

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Period Ended June 30, 2011						
Revenue						
External Sales	**P134,017**	**P -**	**P -**	**P880**	**P -**	**P134,897**
Inter-segment Sales	**107,424**	**59**	**174**	**-**	**(107,657)**	**-**
Segment results	**10,461**	**43**	**77**	**44**	**163**	**10,788**
Net income	**6,104**	**79**	**25**	**52**	**(215)**	**6,045**
As of June 30, 2011						
Assets and liabilities						
Segment assets	**172,591**	**1,918**	**3,386**	**793**	**(17,431)**	**161,257**
Segment liabilities	**114,898**	**327**	**2,453**	**147**	**(16,061)**	**101,764**
Other segment information						
Property, plant and equipment	**36,231**	**-**	**-**	**226**	**3,227**	**39,684**
Depreciation and amortization	**1,730**	**-**	**-**	**19**	**-**	**1,749**
Period Ended June 30, 2010						
Revenue						
External Sales	P113,090	P -	P -	P2,264	P -	P115,354
Inter-segment Sales	1,544	69	163	-	(1,776)	-
Segment results	6,374	56	78	85	55	6,648
Net income	2,750	91	29	84	6	2,960
As of Dec. 31, 2010						
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

The following tables present additional information on the petroleum business segment as of June 30, 2011 and December 31, 2010 and for the six months ended June 30, 2011 and 2010:

	Retail	Lube	Gasul	Industrial	Others	Total
Property, plant and equipment						
As of June 30, 2011	**P4,874**	**P308**	**P194**	**P70**	**P30,777**	**P36,223**
As of December 31, 2010	4,524	345	181	43	26,660	31,753
Capital Expenditures						
As of June 30, 2011	**P406**	**P -**	**P29**	**P9**	**P8,220**	**P8,664**
As of December 31, 2010	169	1	8	2	2,615	2,795
Revenue						
Period ended June 30, 2011	**P53,114**	**P1,191**	**P9,685**	**P51,235**	**P19,317**	**P134,542**
Period ended June 30, 2010	45,789	1,054	7,325	48,239	12,227	114,634

Geographical Segments

The following table presents revenue information regarding the geographical segments of the Group for the six months ended June 30, 2011 and 2010.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Period ended June 30, 2011						
Revenue						
Local	**P118,845**	**P38**	**P174**	**P880**	**(P1,209)**	**P118,728**
Export/International	**122,596**	**21**	**-**	**-**	**(106,448)**	**16,169**
Period ended June 30, 2010						
Revenue						
Local	P105,313	P40	P163	P2,264	(P1,775)	P106,005
Export/International	9,321	28	-	-	-	9,349

3. Related Party Transactions

Lease Agreement

On September 30, 2009, New Ventures Realty Corporation entered into a 25-year lease with the Philippine National Oil Company without rent-free period, covering a property which shall be used 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-cancellable 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 June 30, 2011, 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 San Miguel Corporation subsidiaries. Under these agreements, the Parent Company supplies the bunker, diesel fuel and lube requirements of selected San Miguel Corporation (SMC) plants and subsidiaries.

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

c. Petron entered into lease agreement with San Miguel Properties, Inc. (SMPI) for its office space covering 6,759 square meters with a monthly rate of P3.9. The lease, which commenced on June 1, 2011, is for a period of one year and maybe renewed for a period in accordance with the written agreement of the parties.

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

e. The Parent Company has advances to Petron Corporation Employee Retirement Plan (PCERP) amounting to P21,812 and P22,435 as of June 30, 2011 and December 31, 2010, respectively, included as part of "Other noncurrent assets" account.

f. As of June 30, 2011, the Parent Company has noncurrent receivables of P701 from Petrochemical Asia (HK) Limited included as part of and "Other noncurrent assets" account.

The balances and transactions with related parties as of June 30, 2011 and December 31, 2010 follow:

June 30, 2011 Related Parties	Relationship with Related parties	Revenue from Related Parties	Purchases from Related Parties	Amounts owed by Related Parties	Amounts owed to Related Parties
SMC	Ultimate Parent	**P0.45**	**P44**	**P.08**	**P13**
PanAsia Energy Holdings, Inc.	Under common control	**577**	**-**	**503**	**-**
Distileria Bago, Inc.	Under common control	**242**	**-**	**33**	**-**
San Miguel Brewery Inc.	Under common control	**452**	**0.09**	**99**	**0.12**
San Miguel Yamamura Packaging Corporation	Under common control	**386**	**-**	**107**	**-**
SMC Shipping and Lighterage Corporation	Under common control	**197**	**350**	**41**	**43**
Ginebra San Miguel, Inc.	Under common control	**73**	**0.30**	**14**	**0.17**
San Miguel Foods, Inc.	Under common control	**152**	**0.02**	**46**	**0.02**
San Miguel Energy Corporation	Under common control	**51**	**318**	**0.03**	**43**
San Miguel Yamamura Asia Corporation	Under common control	**372**	**-**	**150**	**-**
Challenger Aero Air Corporation	Under common control	**11**	**-**	**9**	**-**
Mindanao Corrugated Fibreboard, Inc.	Under common control	**19**	**-**	**4**	**-**
San Miguel Purefoods Company, Inc.	Under common control	**77**	**0.04**	**34**	**-**
Archen Technologies, Inc.	Under common control	**12**	**202**	**1**	**111**
SMPI	Under common control	**-**	**28**	**29**	**-**
Others	Under common control	**16**	**26**	**18**	**22**
		P2,637.45	**P968.45**	**P1,088.11**	**P232.31**

December 31, 2010 Related Parties	Relationship with Related parties	Revenue from Related Parties	Purchases from Related Parties	Amounts owed by Related Parties	Amounts owed to Related Parties
SMC	Ultimate Parent	P1	P29	P2	P33
PanAsia 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 Yamamura Packaging Corporation	Under common control	350	-	-	-
SMC Shipping and 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	-
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
SMPI	Under common control	-	63	-	5
San Miguel Paper Packaging Corporation	Under common control	-	-	49	-
Others	Under common control	12	39	5	6
		P10,512	P774.90	P1,779	P90

4. Property, Plant and Equipment

Property, plant and equipment consists of:

	January 1, 2011	Additions and Transfers	Disposals and Reclass	June 30, 2011
Cost:				
Buildings	P8,055	P245	(P7)	P8,293
Machinery & Equipment	5,816	(204)	-	5,612
Refinery and Plant Equipment	37,292	35	-	37,327
Service Stations and Other Equipment	5,353	136	(16)	5,473
Transportation Equipment	519	27	(2)	544
Office Equipment, Furniture & Fixtures	1,626	148	(10)	1,764
Land Improvements	4,332	2	-	4,334
Leasehold Improvements	194	6	4	204
Capital Projects in Progress	2,796	6,112	-	8,908
	65,983	**6,507**	**(31)**	**72,459**
Accumulated Depreciation:				
Buildings	(3,714)	(205)	-	(3,919)
Machinery & Equipment	(3,907)	(133)	-	(4,040)
Refinery and Plant Equipment	(16,552)	(1,018)	-	(17,570)
Service Stations and Other Equipment	(3,756)	(223)	(26)	(4,005)
Transportation Equipment	(355)	(25)	2	(378)
Office Equipment, Furniture & Fixtures	(1,373)	(63)	10	(1,426)
Land Improvements	(1,271)	(19)	-	(1,290)
Leasehold Improvements	(98)	(49)	-	(147)
Capital Projects in Progress	-	-	-	-
	(31,026)	**(1,735)**	**(14)**	**(32,775)**
Net Book Value	**P34,957**	**P4,772**	**(P45)**	**P39,684**

	January 1, 2010	Additions and Transfers	Disposals and Reclass	June 30, 2010
Cost:				
Buildings	P9,545	P83	(P1,658)	P7,970
Machinery & Equipment	5,191	52	(2)	5,241
Refinery and Plant Equipment	36,802	273	-	37,075
Service Stations and Other Equipment	4,070	424	1	4,495
Transportation Equipment	504	39	(41)	502
Office Equipment, Furniture & Fixtures	1,522	32	(28)	1,526
Land Improvements	4,962	16	-	4,978
Leasehold Improvements	82	6	3	91
Capital Projects in Progress	1,450	1,700	-	3,150
	64,128	**2,625**	**(1,725)**	**65,028**
Accumulated Depreciation:				
Buildings	(4,214)	(240)	893	(3,561)
Machinery & Equipment	(3,593)	(121)	-	(3,714)
Refinery and Plant Equipment	(14,439)	(1,074)	3	(15,510)
Service Stations and Other Equipment	(3,383)	(146)	1	(3,528)
Transportation Equipment	(364)	(23)	36	(351)
Office Equipment, Furniture & Fixtures	(1,295)	(58)	27	(1,326)
Land Improvements	(1,231)	(20)	-	(1,251)
Leasehold Improvements	(32)	(4)	-	(36)
Capital Projects in Progress	-	-	-	-
	(28,551)	**(1,686)**	**960**	**(29,277)**
Net Book Value	**P35,577**	**P939**	**(P765)**	**P35,751**

Capital Commitments

As of June 30, 2011, and December 31, 2010 the Group has outstanding commitments to acquire property, plant and equipment amounting to P4,009 and P1,142, respectively.

5. Assets Held for Sale

Petron has an investment property 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 206 parking lots. On December 1, 2010, Petron's Board of Directors approved the sale of these properties to provide cash flows for various projects. On May 2, 2011, the Parent company sold the 32nd floor (with total floor area of 1,530 square meters) and 10 parking lots to International Committee of the Red Cross with a total book value of P57. As of June 30, 2011 and December 31, 2010, the carrying amount of the investment property amounted to P823 and P776, respectively, and is presented as "Assets held for sale" in the consolidated statement of financial position.

6. Fuel Supply Contract

The Parent Company **e**ntered into various fuel supply contracts with National Power Corporation (NPC). Under the agreements, the Parent Company supplies the bunker and diesel fuel oil requirements of NPC, its Independent Power Producers (IPP) and Small Power Utility Groups (SPUG) power plants/barges. For six months ended June 30, 2011, the following are the fuel supply contracts granted to Petron:

Bid Date	Date of Award	Contract Duration	IFO** (in KL**)	IFO (Amount)	DFO** (in KL)	DFO (Amount)
Jan 12, ‘11	Jan 31, ‘11	Jan to Dec ‘11	44,587	P1,127	15,192	P490
Mar 10, ‘11	Mar 23, ‘11	Apr to Jun ‘11	4,833	140	9,560	373

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

7. Earnings Per Share

Basic and diluted earnings per share amounts for the six months ended June 30, 2011 and 2010 are as follows:

	2011	2010
Net income attributable to equity holders of the Parent Company	**P6,030**	P2,942
Dividends on preferred shares for the period	**476**	238
Net income attributable to common shareholders of Parent Company	**P5,554**	P2,704
Weighted average number of common shares outstanding (in millions)	**9,375**	9,375
Basic/diluted earnings per common share	**P0.59**	P0.29

As of June 30, 2011 and 2010, the Group has no dilutive debt or equity instruments.

8. Dividends

On May 11, 2011, the Parent Company’s Board of Director (BOD) declared cash dividend of P2.382/share to all preferred stockholders, and P0.10/share to all common stockholders, of record as of May 26, 2011 payable on June 6, 2011.

On June 7, 2010, the Parent Company’s BOD declared cash dividend of P2.382/share to all preferred stockholders, and P0.10/share to all common stockholders, of record as of July 30, 2010 payable on August 16, 2010.

9. Acquisition of an Associate

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

10. Commitments and Contingencies

Unused Letters of Credit and Outstanding Standby Letters of Credit

Petron has unused letters of credit amounting to approximately P31 as of June 30, 2011 and P4 as of December 31, 2010. On the other hand, outstanding standby letters of credit for crude importations amounted to P11,088 and P8,756 as of June 30, 2011 and December 31, 2010, respectively.

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 contested 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 Philippine Supreme Court (SC). The SC rendered a Decision in favor of the Parent Company on July 28, 2010 and denied with finality the Commissioner of Internal Revenue's motion for reconsideration on September 13, 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.

<u>Pandacan Terminal Operations</u>

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 Department of Energy (DOE), agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, 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 March 7, 2007 decision of the Supreme Court became final and executory on February 27, 2008.

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. The Parent Company filed its Comment-in-Intervention on December 1, 2009. Thereafter, the Parent Company filed a Manifestation with the SC on November 30, 2010 stating that it has decided to cease operation of its petroleum product storage facilities in Pandacan, Manila within 5 years or not later than January 2016. On January 10, 2011, Petron filed a Manifestation clarifying that it has not changed its original position that Ordinance No. 8187 is a valid enactment of the City of Manila.

Bataan Real Property Tax Cases

The Parent Company had three real property tax cases with the Province of Bataan, arising from three real property tax assessments. The first was for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of P86.4 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 was 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.

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 Central Board of Assessment Appeals (CBAA), as the case maybe, on the pending appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

On April 15, 2011, Petron and Bataan agreed on a compromise settlement to terminate all their pending disputes with respect to all outstanding real property taxes assessed against Petron up to the end of the year 2011 and to put an end to any and all prior, existing and future claims by, or litigation between, them arising from the facts and circumstances relating to the properties covered by said tax declarations.

Petron and Bataan filed with the CBAA last April 25, 2011, a Joint Motion for the approval of the Compromise Agreement. On May 23, 2011, CBAA issued a Joint Decision approving the Compromise Agreement and dismissing all of Petron's liability with respect to real property taxes due on properties until calendar year 2011. In effect, all CBAA cases are now dismissed.

Guimaras Case

Complaints for Homicide, Less Serious Physical Injuries and Violation of the Philippine Clean Water Act of 2004 (RA 9275) were filed against the Parent Company represented by Messrs. Nicasio I. Alcantara and Khalid D. Al-Faddagh, its former Chairman and President, respectively, and the Captain and owner of M/T Solar 1 on June 17, 2009, as a result of the oil slick from the said vessel.

The Respondents denied the allegations imputed against them, as the same accusation was resolved and dismissed by the Provincial Prosecutor's Office of Guimaras in its resolution dated March 2, 2007.

On July 14, 2011, the Provincial Prosecutor's Office of Guimaras issued a Joint Resolution finding probable cause to indict the owner and the Captain of M/T Solar 1 and Messrs. Alcantara and Mr. Faddagh for Violation of Section 28, Paragraph 5 in relation to Section 4 of the Clean Water Act of 2004.

Messrs. Alcantara and Faddagh filed their Motion for Reconsideration with the Provincial Prosecutor's Office of Guimaras on August 1, 2011 on the ground that under Republic Act No. 9483, otherwise known as "The Oil Pollution Compensation Act of 2007", it is the owner of the vessel, not the charterer, that is liable for any oil spill or pollution damage that may result from the operation of the said vessel.

11. **Financial Risk Management Objectives and Policies**

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Foreign currency risk
- Interest rate risk
- Credit risk
- Liquidity risk
- Commodity price risk
- Other market price risk

This note presents information about the Group's exposure to each of the foregoing risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital.

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:

1. The Financial Planning Unit of the Treasurer's Department, which is mandated with the overall coordination and development of the enterprise-wide risk management process.

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

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

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

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

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 Securities and Exchange Commission (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 as of June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011		December 31,2010	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$399**	**P17,269**	US$648	P28,395
Trade and other receivables	**419**	**18,157**	173	7,606
Non-current receivables	**2**	**97**	1	29
	820	**35,523**	822	36,030
Liabilities				
Drafts and loans payable	**-**	**-**	59	2,573
Liabilities for crude oil and petroleum product importation	**702**	**30,409**	288	12,606
Long-term debt (including current maturities)	**316**	**13,673**	355	15,563
	1,018	**44,082**	702	30,742
Net foreign currency-denominated monetary assets	**(US$198)**	**(P8,559)**	US$120	P5,288

The Group reported net foreign exchange gains amounting to P172 and P500 for the period ending June 30, 2011 and 2010, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
December 31, 2009	46.20
June 30, 2010	46.37
December 31, 2010	43.84
June 30, 2011	43.33

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 June 31, 2011 and December 31, 2010:

	₱1 decrease in the US$ exchange rate		**₱1 increase in the US$ exchange rate**	
June 30, 2011	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P384)**	**(P283)**	**P384**	**P283**
Trade and other receivables	**(88)**	**(393)**	**88**	**393**
Noncurrent receivables	**-**	**(2)**	**-**	**2**
	(472)	**(678)**	**472**	**678**
Drafts and loans payable	**-**	**-**	**-**	**-**
Liabilities for crude oil and petroleum product importation	**385**	**586**	**(385)**	**(586)**
Long-term debt (including current maturities)	**316**	**221**	**(316)**	**(221)**
	701	**807**	**(701)**	**(807)**
	P229	**P129**	**(P229)**	**(P129)**

	₱1 decrease in the US$ exchange rate		₱1 increase in the US$ exchange rate	
December 31, 2010	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P642)	(P455)	P642	P455
Trade and other receivables	(97)	(144)	97	144
Noncurrent receivables	-	(1)	-	1
	(739)	(600)	739	600
Drafts and loans payable	-	59	-	(59)
Liabilities for crude oil and petroleum product importation	285	202	(285)	(202)
Long-term debt (including current maturities)	355	249	(355)	(249)
	640	510	(640)	(510)
	(P99)	(P90)	P99	P90

Exposures to foreign exchange rates vary during the period 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 P155 and P180 in the period ending June 30, 2011 and December 31, 2010, 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 June 30, 2011 and December 31, 2010, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

June 30, 2011	**<1 year**	**1-<2 years**	**2-<3 years**	**3-<4 years**	**4-<5 years**	**>5 years**	**Total**
Fixed rate							
Philippine peso denominated	**P6,810**	**P48**	**P5,248**	**P48**	**P4,512**	**P20,000**	**P36,666**
Interest rate	**6.4% - 9.3%**	**6.4% - 9.3%**	**6.4% - 9.3%**	**6.4% - 9.3%**	**6.4% - 9.3%**	**6.4% - 9.3%**	
Floating rate							
Philippine peso denominated	**933**	**600**	**300**	**-**	**-**	**-**	**1,833**
Interest rate	**net 1M SDA + margin, 3-mo. Mart1/ PDSTF + margin**	**net 1M SDA + margin**	**net 1M SDA + margin**				
US$ denominated (expressed in Php)	**3,418**	**3,418**	**3,418**	**3,419**	**-**	**-**	**13,673**
Interest rate*	**3, 6 mos. Libor + margin**	**3, 6 mos. Libor + margin**	**3, 6 mos. Libor + margin**	**3, 6 mos. Libor + margin**	**3, 6 mos. Libor + margin**		
	P11,161	**P4,066**	**P8,966**	**P3,467**	**P4,512**	**P20,000**	**P52,172**

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

December 31, 2010	<1 year	1-<2 years	2-<3 years	3-<4 years	4-<5 years	>5 years	Total
Fixed rate							
Philippine peso denominated	P6,963	P202	P48	P5,248	P48	P24,511	P37,020
Interest rate	6.4% - 9.3%	6.4% - 9.3%	6.4% - 9.3%	6.4% - 9.3%	6.4% - 9.3%	6.4% - 9.3%	
Floating rate							
Philippine peso denominated	1,267	600	600	-	-	-	2,467
Interest rate	net 1M SDA + margin, 3-mo. Mart1/ PDSTF + margin	net 1M SDA + margin	net 1M SDA + margin				
US$ denominated (expressed in Php)	3,459	3,459	3,458	3,458	1,729	-	15,563
Interest rate	3, 6 mos. Libor + margin	3, 6 mos. Libor + margin	3, 6 mos. Libor + margin	3, 6 mos. Libor + margin	3, 6 mos. Libor + margin		
	P11,689	P4,261	P4,106	P8,706	P1,777	P24,511	P55,050

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. Request for credit facilities from trade customers undergo stages of review by Sales 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:

	June 30, 2011	December 31, 2010
Cash in bank and cash equivalents	**P19,745**	P40,358
Derivative assets	**4**	34
Trade and other receivables-net	**23,029**	24,266
Due from affiliates	**23,341**	22,447
Noncurrent receivables	**109**	122
	P66,228	P87,227

The credit risk for cash in bank 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 risk in trade receivables. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, and cash bonds valued at P3,201 and P2,736 as of June 30, 2011 and December 31, 2010, respectively. These securities may only be called on or applied upon default of customers.

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

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

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

Class B "Moderate Grade" 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.

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 of another financial asset.

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of June 30, 2011 and December 31, 2010.

June 30, 2011	**Carrying Amount**	**Contractual Cash Flow**	**1year or less**	**>1 year - 2 years**	**>2 year - 5 years**	**Over 5 years**
Financial assets						
Cash and cash equivalents	**P22,552**	**P22,552**	**P22,552**	**P-**	**P-**	**P-**
Trade and other receivables	**23,029**	**23,029**	**23,029**	**-**	**-**	**-**
Due from affiliates	**23,341**	**23,401**	**1,025**	**21,911**	**465**	**-**
Derivative assets	**4**	**4**	**4**	**-**	**-**	**-**
Financial assets at FVPL	**191**	**191**	**191**	**-**	**-**	**-**
AFS financial assets	**1,186**	**1,378**	**191**	**112**	**1,075**	**-**
Noncurrent receivables	**109**	**109**	**-**	**35**	**43**	**31**
Financial liabilities						
Draft and loans payable	**24,155**	**24,315**	**24,315**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding taxes payable)	**22,979**	**22,979**	**22,979**	**-**	**-**	**-**
Derivative liabilities	**6**	**6**	**6**	**-**	**-**	**-**
Long-term debt (including current maturities)	**51,613**	**68,944**	**14,687**	**7,175**	**24,702**	**22,380**
Cash bonds	**300**	**304**	**255**	**33**	**15**	**1**
Cylinder deposits	**317**	**317**	**-**	**-**	**317**	**-**
Other noncurrent liabilities	**51**	**51**	**-**	**1**	**32**	**18**

December 31, 2010	Carrying Amount	Contractual Cash Flow	1year or less	>1 year - 2 years	>2 year - 5 years	Over 5 years
Financial assets						
Cash and cash equivalents	P43,984	P43,984	P43,984	P-	P-	P-
Trade and other receivables	24,266	24,266	24,266	-	-	-
Due from affiliates	22,447	22,447	1,444	21,003	-	-
Derivative assets	34	34	34	-	-	-
Financial assets at FVPL	193	193	193	-	-	-
AFS financial assets	1,161	1,372	250	57	1,065	-
Noncurrent receivables	122	122	-	34	55	33
Financial liabilities						
Draft and loans payable	32,457	32,733	32,733	-	-	-
Accounts payable and accrued expenses (excluding taxes payable)	17,375	17,375	17,375	-	-	-
Derivative liabilities	30	30	30	-	-	-
Long-term debt (including current maturities)	54,402	73,619	15,553	7,386	22,648	28,032
Cash bonds	275	284	218	45	19	2
Cylinder deposits	274	274	-	-	274	-
Other noncurrent liabilities	60	60	-	10	27	23

Commodity Price Risk

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

To minimize the Company's risk of potential losses due to volatility of international crude and product prices, the Group implemented commodity hedging for petroleum products. The Group enters into various commodity derivatives to (a) protect margins of MOPS (Mean of Platts of Singapore) based sales and (b) protect product inventories from downward price risk. Hedging policy includes the use of commodity price swaps, buying of put options, and use of collars and 3-way options. 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 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:

	June 30, 2011	December 31, 2010
Total assets	P161,386	P161,816
Total liabilities	103,406	108,472
Total equity	57,980	53,344
Debt to equity ratio	1.8:1	2.0:1

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

12. Financial Assets and Financial Liabilities

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

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

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

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

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

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where 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.

Derivatives instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are presented in the separate statement of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from changes in fair value of these derivatives are recognized under the caption marked-to-market gain (losses) included as part of “Other Income (Expenses)” in the 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 P195 and P277 as of June 30, 2011 and December 31, 2010, respectively.

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of “Interest income” in profit and 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 statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash 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 noncurrent receivables are included in this category.

The combined carrying values of financial assets under this category amounted to P69,031 and P90,819 as of June 30, 2011 and December 31, 2011, respectively.

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 reclassified 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 statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

As of June 30, 2011 and December 31, 2010, the Group has no investments accounted under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Other reserves" in equity. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS investment securities, is reported as part of "Interest income" in the consolidated 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 and 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 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 P1,186 and P1,161 as of June 30, 2011 and December 31, 2010, respectively.

<u>Financial Liabilities</u>

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 P6 and P30 as of June 30, 2011 and December 31, 2010, respectively.

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

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

The combined carrying values of financial liabilities under this category amounted to P99,415 and P104,843 as of June 30, 2011 and December 31, 2010, respectively.

Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest 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; or

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

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

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity

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

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

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

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

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of June 30, 2011 December 31, 2010:

	June 30, 2011		December 31, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	**P22,552**	**P22,552**	P43,984	P43,984
Trade and other receivables	**23,029**	**23,029**	24,266	24,266
Due from affiliates	**23,341**	**23,341**	22,447	22,447
Long-term receivables	**109**	**109**	122	122
Loans and receivables	**69,031**	**69,031**	90,819	90,819
AFS financial assets	**1,186**	**1,186**	1,161	1,161
Financial assets at FVPL	**191**	**191**	193	193
Derivative assets	**4**	**4**	34	34
FA at FVPL	**195**	**195**	227	227
Total financial assets	**P70,412**	**P70,412**	P92,207	P92,207

	June 30, 2011		December 31, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial liabilities (FL):				
Short-term loans	**P24,155**	**P24,155**	P32,457	P32,457
Liabilities for crude oil and petroleum product importation	**16,939**	**16,939**	11,194	11,194
Trade and other payables (excluding specific taxes and other taxes payable)	**6,040**	**6,040**	6,181	6,181
Long-term debt including current portion	**51,613**	**51,613**	54,402	54,402
Cash bonds	**300**	**300**	275	275
Cylinder deposits	**317**	**317**	274	274
Other noncurrent liabilities	**51**	**51**	60	60
FL at amortized cost	**99,415**	**99,415**	104,843	104,843
Derivative liabilities	**6**	**6**	30	30
Total financial liabilities	**P99,421**	**P99,421**	P104,873	P104,873

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 2011 and 2010 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 month, the carrying value approximates its fair value because of recent regular repricing 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.

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

The Group enters into various 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.

Currency Forwards
As of June 30, 2011 and December 31, 2010, the Company has outstanding foreign currency forward contracts with aggregate notional amount of US$155 and US$15, respectively with various maturities in July 2011. As of June 30, 2011, the net negative fair value of these currency forwards amounted to P1.

Currency Options
The Company has no outstanding currency option agreements as of June 30, 2011 and December 31, 2010.

Commodity Swaps
The Group has outstanding swap agreements covering its oil requirements, with various maturities. 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.

The Company has outstanding swap agreements covering its fuel and crude requirements, with various maturities in 2011. Under the agreement, payment is made either by the Company or its counterparty for the difference between the agreed fixed price of fuels and crude and the price based on the relevant price index. The outstanding equivalent notional quantities covered by the commodity swaps as of June 30, 2011 and December 31, 2010 were 5.7 MMB and 1.5 MMB, respectively. As of June 30, 2011 and December 31, 2010, the total negative mark-to-market loss of these swaps amounted to P128 and P32, respectively.

Commodity Options
The Company has outstanding commodity option agreements as of June 30, 2011 and December 31, 2010 with notional quantities totaling 0.9 MMB and 2.8 MMB, respectively. The respective net positive fair value of these hedges amounted to P102 and P234 as of the June 30, 2011 and December 31, 2010, respectively.

Embedded Derivatives
The Group assesses whether embedded derivatives are required to be separated from the 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.

The Group's embedded derivatives include currency derivatives (forwards and options) embedded in non-financial contracts.

Embedded Currency Forwards
As of June 30, 2011 and December 31, 2010, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$4 and US$151, respectively. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of June 30, 2011 and December 31, 2010, the net negative fair value of these embedded currency forwards amounted to P0.70 and P4, respectively.

For the periods ended June 30, 2011 and December 31, 2010, the Group recognized marked-to-market losses from freestanding and embedded derivatives amounting to P1 and P59, respectively.

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 June 30, 2011 and December 31, 2010. 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.

June 30, 2011	**Level 1**	**Level 2**	**Total**
Financial assets at FVPL	P191	P-	P191
Derivative assets	-	4	4
AFS financial assets	-	1,186	1,186
Financial Liabilities			
Derivative liabilities		6	6

December 31, 2010	**Level 1**	**Level 2**	**Total**
Financial assets at FVPL	P193	P -	P193
Derivative assets	-	34	34
AFS financial assets	-	1,161	1,161
Financial Liabilities			
Derivative liabilities		30	30

As of June 30, 2011 and December 31, 2010, 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.

13. Events after the Reporting Date

On July 12, 2011, the BOD approved a cash dividend of P2.382/share to preferred stockholders of record as of August 10, 2011, payable on September 5, 2011.

14. Other Matters

a. There were no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Performance.

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

c. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended June 30, 2011.

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

   Gross Domestic Product (GDP)

   After growing robustly in 2010 due to high election spending, the domestic economy slowed down in 2011. GDP in the 1Q11 expanded by 4.6% after the strong 8.4% growth in the same period last year. Although fundamentals remained healthy with increasing household consumption and high capital inflows, a slowdown in growth was observed. The slowdown was due to the rising commodity prices, particularly of fuel, lower growth of remittances due to the turmoil in the Middle East and North Africa and the tragedy in Japan, lower direct foreign investments, and a decline in government spending. Government spending was limited as it aimed to improve the fiscal position of the country and has become more stringent in releasing funds for infrastructure and other social projects.

   91-Day Treasury-Bill Rate

   91-day T-bills averaged 1.2% in the first half of 2011, substantially lower than the same period last year of 3.9% and FY 2010 average of 3.7%. Interest rates in 2011 have been low as liquidity in the financial markets remained sufficient.

   Peso-Dollar Exchange Rate

   The local currency sustained its strength and averaged P43.5/$ in the first half of 2011 from 2010 FY average of P45.1/$ and 2nd half 2010 average of P45.8/$. The continuously growing OFW remittances, exports, and strong portfolio investments contributed to the peso's appreciation. The Dollar's general weakness due to the US' fragile economy and current debt situation also benefitted other currencies like the peso.

   Inflation

   Inflation averaged 4.3% in the first half of 2011, just equal to the average inflation registered in the same period last year, but up from FY 2010's 3.8% average. Prices of fuel, light, water, and services have been higher in the first half compared to end 2010. The average inflation as of the first half still remains within the government's target inflation of 3-5% for FY 2011.

   Dubai price

   Dubai crude averaged $105.8/bbl in the first half of 2011, a large leap from the $77.1/bbl FY average in 2010. The surge of crude prices was triggered by the heightened turmoil in the oilexporting regions Middle East and North Africa, disrupting some supply of crude. Crude prices were also boosted by an improved world oil demand outlook, high investment in the crude futures market due to the weakness of the dollar, and the strength of the equities market.

Industry Oil Demand

Data from DOE shows that as of April 2011, total oil industry demand dropped by 7.1% from 311.2MBD in the same period last year to only 289.0 MBD this year. The rising prices of fuels in 2011 affected industry demand. Motorists, industries, and households tend to conserve fuel consumption during times of high prices.

Tight Industry Competition

Competition remains stiff with the new players implementing different marketing strategies and aggressively expanding. As of YTD April 2011, the new players (excluding direct imports) have collectively cornered around 25.7% of the total oil market. Collectively, the new players are leading the LPG market segment with 44.7% market share.

Updates on 2011 Capital Program

The 2011 capital program endorsed last December 2010 is P88.6 billion. Of this amount P22.8 billion has already been approved and includes partial funding for the refinery expansion project, service station network expansion, consumer facilities, asphalt facilities, maintenance and other efficiency projects.

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

Illegal Trading Practices

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

Existing or Probable Government Regulation

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

Biofuels Act of 2006. The Biofuels Act of 2006 mandates that ethanol comprise 5% of total gasoline volumes, and diesels contain 2% CME (cocomethyl ester). By 2011, all gasoline grades should contain 10% ethanol.

The Department of Energy circular (DC 2011-02-0001) signed February 6, 2011 further elaborates that the 10% ethanol blend shall be mandatory beginning August 26, 2011, subject to exempt gasoline grades. These exempt gasoline grades are regular gasoline with RON 81 for use of off-road engines, farm equipment and small motorized bancas; regular gasoline with RON 87 for use of motorcycles and premium plus gasoline with minimum RON of 97. By February 6, 2012 or upon full implementation, all gasoline grades, no exemptions, shall be required to contain 10% ethanol. Full implementation will be subject to review 30 days before February 6, 2012 to determine its economic viability given availability of supply and ethanol prices.

To produce compliant fuels, the Parent Company invested in CME (coco methyl esther) injection systems at the refinery and depots. Prior to the mandatory blending of ethanol into gasoline by 2009, the Parent Company already started selling ethanol blended gasoline in selected service stations in Metro Manila in May 2008.

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

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

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

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

Liquefied Petroleum Gas (LPG) Bill. The LPG Act of 2009 aims to ensure safe practices and quality standards and mitigate unfair competition in the LPG sector. LPG cylinder seal suppliers must obtain a license and certification of quality, health and safety from the Department of Energy before they are allowed to operate. LPG cylinder requalifiers, repairers and scrapping centers, will also have to obtain a license from the Department of Trade and Industry. The Bill also imposes penalties on underfilling, underdelivering, illegal refilling and storage, sale or distribution of LPG-filled cylinders without seals, illegal possession of LPG cylinder seal, hoarding, and importation of used or second-hand LPG cylinders, refusal of inspection, and non-compliance to standards.

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

Tax Credit Certificates Related Cases

In 1998, the BIR issued a deficiency excise tax assessment against the Parent Company. The assessment relates to the Parent Company’s use of P659 worth of 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 contested the BIR’s assessment before the 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 SC. The SC rendered a Decision in favor of the Parent Company on July 28, 2010 and denied with finality the Commissioner of Internal Revenue's motion for reconsideration on September 13, 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 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 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.

Pandacan Terminal Operations

In November 2001, the City of Manila enacted 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 an 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, 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 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 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 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 SC 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 March 7, 2007 decision of the SC became final and executory on February 27, 2008.

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 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. The Parent Company filed its Comment-in-Intervention on December 1, 2009. Thereafter, the Parent Company filed a Manifestation with the Supreme

Court on November 30, 2010 stating that it has decided to cease operation of its petroleum product storage facilities in Pandacan, Manila within 5 years or not later than January 2016. On January 10, 2011, Petron filed a Manifestation clarifying that it has not changed its original position that Ordinance No. 8187 is a valid enactment of the City of Manila.

Bataan Real Property Tax Cases

The Parent Company had three real property tax cases with the Province of Bataan, arising from three real property tax assessments. The first was for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of P86.4 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 was 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 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.

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.
On April 15, 2011, Petron and Bataan agreed on a compromise settlement to terminate all their pending disputes with respect to all outstanding real property taxes assessed against Petron up to the end of the year 2011 and to put an end to any and all prior, existing and future

claims by, or litigation between, them arising from the facts and circumstances relating to the properties covered by said tax declarations.

Petron and Bataan filed with the CBAA last April 25, 2011, a Joint Motion for the approval of the Compromise Agreement. On May 23, 2011, CBAA issued a Joint Decision approving the Compromise Agreement and dismissing all of Petron's liability with respect to real property taxes due on properties until calendar year 2011. In effect, all CBAA cases are now dismissed.

Guimaras Case

Complaints for Homicide, Less Serious Physical Injuries and Violation of the Philippine Clean Water Act of 2004 (RA 9275) were filed against the Parent Company represented by Messrs. Nicasio I. Alcantara and Khalid D. Al-Faddagh, its former Chairman and President, respectively, and the Captain and owner of M/T Solar 1 on June 17, 2009, as a result of the oil slick from the said vessel.

The Respondents denied the allegations imputed against them, as the same accusation was resolved and dismissed by the Provincial Prosecutor's Office of Guimaras in its resolution dated March 2, 2007.

On July 14, 2011, the Provincial Prosecutor's Office of Guimaras issued a Joint Resolution finding probable cause to indict the owner and the Captain of M/T Solar 1 and Messrs. Alcantara and Mr. Faddagh for Violation of Section 28, Paragraph 5 in relation to Section 4 of the Clean Water Act of 2004.

Messrs. Alcantara and Faddagh filed their Motion for Reconsideration with the Provincial Prosecutor's Office of Guimaras on August 1, 2011 on the ground that under Republic Act No. 9483, otherwise known as "The Oil Pollution Compensation Act of 2007", it is the owner of the vessel, not the charterer, that is liable for any oil spill or pollution damage that may result from the operation of the said vessel.

Petron Corporation and Subsidiaries
Receivables
June 30, 2011
(Amounts in Millions of Pesos)

Breakdown:	
Accounts Receivable - Trade	P 14,875
Accounts Receivable - Non-Trade	8,154
Total Accounts Receivable	**P 23,029**

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1-30 days	P 13,305
	31-60 days	1,971
	61-90 days	399
	Over 90 days	251
Total		**15,926**
Allowance for doubtful accounts		1,051
Accounts Receivable - Trade		**P14,875**

Interim Financial Report as of June 30, 2011

Management's Discussion and Analysis of Financial Position and Performance

Financial Performance

YTD June 2011 vs. YTD June 2010

Petron Corporation posted **sales revenues** of **₱ 134.90 billion** in the first half of the year compared to ₱115.35 billion of the same period last year. The 17% growth in revenues can be largely attributed to higher oil price and increased export sales. Dubai, which is the reference crude price in the Asia Pacific region, averaged US$105.80/barrel versus US$77.00 in first half 2010 while export sales jumped by 54% hitting 3.14 million barrels. Margins, likewise, improved with sales of high-margin petrochemical products of up to 1.7 million barrels during the period.

	YTD June		Variance- Fav (Unfav)	
(In Million Pesos)	**2011**	**2010**	**Amt**	**%**
Sales	**134,897**	**115,354**	**19,543**	**17**
Cost of Goods Sold	**121,037**	**105,867**	**(15,170)**	**(14)**
Gross Margin	**13,860**	**9,487**	**4,373**	**46**
Selling and Administrative Expenses	**3,072**	**2,839**	**(233)**	**(8)**
Non-operating Charges	**2,737**	**2,791**	**54**	**2**
Net Income	**6,045**	**2,960**	**3,085**	**104**
EBITDA	**11,552**	**7,038**	**4,514**	**64**
Sales Volume (MB)	**23,216**	**23,979**	**(763)**	**(3)**
Earnings per Share (In Peso)	**0.59**	**0.29**	**0.30**	**103**
Return on Sales (%)	**4.5**	**2.6**	**1.9**	**73**

Net income reached **₱ 6.05 billion** or more than double last year's profit of ₱ 2.96 billion.

With the improved bottom line, earnings before interest, taxes, depreciation and amortization (**EBITDA)** of **₱ 11.55 billion** also surpassed the ₱ 7.04 billion level a year earlier.

Earnings per share of **₱ 0.59** was twice as much the ₱ 0.29 last year while **return on sales** grew from 2.6% to **4.5%**.

Major contributory factors are the following:

Gross margin (GM) rose by 46% from **₱** 9.49 billion in June 2010 to **₱ 13.86 billion** this year. The following accounted for the variance in gross margin:

- **Sales volume for the first half of 2011** went down to **23.2 million barrels** from previous year's 24.0 million barrels. Domestic sales dropped by 1.9 million barrels as reduced motorist activity due to high fuel prices and bad weather dampened local demand. Exports, however, grew by 54% or 1.1 million barrels.

- **Sales** rose by 17% to **₱ 134.90 billion** from ₱ 115.35 billion the year before essentially due to the escalation in average selling price per liter prompted by the 38% spike in regional MOPS prices.
- **Cost of Goods Sold** went up to **₱ 121.04 billion** from last year's ₱ 105.87 billion as the average cost per liter increased by 17%. The rise in cost was principally due to the 25% escalation in landed cost of crude that formed part of the total cost of goods sold.

- **Refinery Operating Expenses** increased **to ₱ 2.66 billion** from ₱ 2.47 billion during same period last year. Higher expenses was due to the combined effect of the following: 1) increased power consumption due to incremental crude run and higher cost of electricity; 2) rent of equipment for Refinery Master Plan-2 project; 3) higher real property tax and 4) higher employee costs due to additional manpower complement. The increases were offset by the drop in depreciation expense.

- **Selling and Administrative Expenses (OPEX)** amounted to **₱ 3.07 billion**, 8% more than the ₱ 2.84 billion expenditures incurred last year as newly-built service stations resulted in increased rent and depreciation. Higher acquisition of LPG cylinders and more aggressive promotional activities also contributed to the increase in OPEX. With the rise in OPEX, despite the drop in volume, **OPEX per liter** of volume sold went up to **₱ 0.83** this year from ₱ 0.74 last year.

- **Net Financing Costs and Other Charges** slid to **₱ 2.74 billion** from the ₱ 2.79 billion level as of June 2010. This year's translation gain from US-dollar denominated transactions was a reversal from last year's loss. Higher interest expense due to the increase in average borrowing level and rate was tempered by interest income on advances and money placements.

<u>YTD June 2010 vs YTD June 2009</u>

Petron posted a consolidated **net income** of **₱ 2.96 billion** for the **first half of the year,** 64% higher than the year-ago profit of ₱ 1.8 billion. The significant improvement in the Company's bottom line was fueled by higher domestic sales and better margins from petrochemical feedstocks. Comparative summary follows:

	YTD June		Variance- Fav (Unfav)	
(In Million Pesos)	**2010**	**2009**	**Amt**	**%**
Sales	**115,354**	**76,679**	**38,675**	**50**
Cost of Goods Sold	**105,867**	**69,406**	**(36,461)**	**(53)**
Gross Margin	**9,487**	**7,273**	**2,214**	**30**
Selling and Administrative Expenses	**2,839**	**2,766**	**(73)**	**(3)**
Non-operating Charges	**2,791**	**1,966**	**(825)**	**(42)**
Net Income	**2,960**	**1,808**	**1,152**	**64**

(In Million Pesos)	YTD June 2010	YTD June 2009	Variance-Fav(Unfav) Amt	Variance-Fav(Unfav) %
EBITDA	**7,038**	**6,399**	**639**	**10**
Sales Volume (MB)	**23,979**	**21,414**	**2,565**	**12**
Earnings per Share (In Peso)	**0.29**	**0.19**	**0.10**	**53**
Return on Sales (%)	**2.6**	**2.4**	**0.2**	**8**

During the second quarter, Petron registered net earnings of **₱ 1.03 billion**, up by 10% from ₱ 934 million profit for the same period last year. Stable crude oil and finished products prices resulted in better margins this year compared last year as most of the products sold came from expensive crude in 2008 after the total plant shutdown (TPS) in the first quarter.

Consequently, **earnings before interest, taxes, depreciation and amortization (EBITDA)** reached **₱ 7.04 billion**, 10% more than the year ago total of ₱ 6.40 billion.

Earnings per share escalated to **₱ 0.29** from ₱ 0.19 a year earlier while **return on sales** almost matched last year's 2.4%.

Major contributory factors are the following:

Gross margin (GM), in terms of amount, rose by 30% to **₱ 9.49 billion** from previous year's ₱ 7.27 billion owing largely to increased sales volume and better returns on exports of petrochemicals. With the full commercial operations of the BTX unit, sales of propylene more than tripled to **486MMB** from 146MMB while benzene and toluene contributed a total turnover of **591MMB** versus NIL last year. However, GM rate dropped to **8%** from 9% in the first half 2009 on account mainly of negative margins on fuel (Naphtha) exports.

The following accounted for the variance in gross margin:

- **Sales volume** went up by 12% to **24.0MMB** from prior year's 21.4MMB primarily from higher diesel and petrochemical sales. Demand for diesel grew due to increased operations of independent power producers during the election period combined with the effect of new service station builds. Last year, the refinery was on TPS in the first quarter while the BTX unit started commercial operations only in April limiting production and sales of petrochemicals as well as of fuel products in the first semester.

- **Net sales** totaled **₱ 115.35 billion**, almost twice the 2009 level of ₱ 76.68 billion traceable mainly to higher average selling price per liter (2010: ₱ 29.61 vs. 2009:₱ 21.97) complemented by the 2.6MMB incremental sales volume. Year-on-year, regional MOPS prices escalated to an average US$81.55/bbl this year from US$55.75/bbl in first half of 2009.

- **Cost of Goods Sold (CGS)** surged to **₱ 105.87 billion** from ₱ 69.41 billion in the same period the previous year brought about by more expensive crude purchases that went into CGS (2010: US$77.88 vs. 2009: US$53.31). Since the refinery was on TPS for the first few months of 2009, only 58% of CGS was sourced from crude compared to 84% this year. As against last year, average importation costs per liter were cheaper vis-à-vis in 2010 (2010: ₱ 19.70 vs. 2009: ₱ 16.50).

- **Refinery Operating Expenses**, which formed part of CGS, declined by 6% to **₱ 2.47 billion** as maintenance and repairs (M&R) were trimmed down by half. The bulk of last year's M&R were related to the restoration of the electrical facilities damaged by the 2008 fire incident plus turnaround activities of some units.

- **Selling & Administrative Expenses** of **₱ 2.84 billion** for the year matched 2009 level as increased expenses related to service station network expansion projects were offset by lower advertising expenses. However, on a **peso per liter basis**, actual OPEX was lower at **₱ 0.72** versus ₱ 0.81 a year ago as volume sold grew from 21.4MMB to 24.0MMB

- **Net Financing Costs & Other Charges** of **₱ 2.79 billion** moved up by 42% from last year's total. Interest expense was lower this year by ₱ 710 million which can be attributed to the decline in short-term borrowing level (2010 average: ₱ 35.2B vs. 2009 average: ₱ 42.9B) and rates (2010: 4.3% vs. 2009: 6.7%). This was slightly tempered by the rise in long-term interest payments (by ₱ 357 million) mostly related to the ₱ 10 billlion FXCN loan availed in June 2009. However, lower interest expense was fully offset by higher forex and commodity hedging losses recorded this year.

Financial Position

June 2011 vs. December 2010

Petron ended the first half of 2011 with **total resources** of **₱ 161.39 billion** or slightly lower than end- 2010 level of **₱ 161.82 billion**.

Cash and cash equivalents dropped by 49% to **₱ 22.55 billion** mainly due to the settlement of loans, investment in capital projects and purchase of inventories.

Financial assets at fair value through profit or loss went down by 14% from ₱ 0.23 billion to **₱ 0.19 billion** brought about by the decline in market value of investments in marketable securities and club membership shares.

Trade and Other Receivables-net of **₱ 23.03 billion,** improved by 5% or ₱ 1.24 billion from the ₱ 24.27 billion level as at end of 2010 owing to lower government receivables.

Inventories grew significantly from ₱ 28.15 billion to **₱ 41.71 billion** principally due to higher crude volume and price.

Other current assets of **₱ 6.70 billion** went beyond the ₱ 4.29 billion level in December 2010 essentially on account of higher Input VAT due to higher purchase price of crude and finished products.

With the sale of 32nd floor and 14 parking slots of Petron Mega Plaza **assets-held-for-sale** dwindled by 6% from ₱ 0.82 billion to **₱ 0.78 billion**.

Property, plant and equipment-net increased by 14% from ₱ 34.96 billion to **₱ 39.68 billion** attributed largely to capital expenditures in the Refinery specifically the Refinery Solid Fuel-Fired Power Plant and Refinery Master Plan 2, and additional service stations.

Investment in associates went up from ₱ 0.80 billion to **₱ 1.39 billion** brought about mainly by the purchase of 35% interest in Manila North Harbor Port, Inc.

Deferred tax assets- net moved up to **₱ 129 million** from ₱ 28 million in 2010 due to the effect of unrealized profit from subsidiaries.

Short-term loans and **liabilities for crude oil and petroleum product importations** decreased by 6% to **₱41.09 billion** due to settlements made partly tempered by higher crude importations.

Derivative Liabilities fell to **₱ 6 million** from end-December 2010's ₱ 30 million level due to lesser notional amounts of derivative instruments.

Income tax payable ballooned from ₱ 14 million to **₱ 586 million** due to higher taxable income during the first half of the year. The December 2010 taxable income considered the net operating loss carry-over (NOLCO) of prior years and the utilization of past years' MCIT.

Long-term debt, inclusive of current portion, ended lower by 5% from ₱ 54.40 billion to **₱ 51.61 billion** with the payment of loan amortization.

Deferred tax liabilities-net amounted to **₱ 1.64 billion,** down by 16% compared with the ₱ 1.96 billion balance as at December 31, 2010 due to the impact of temporary differences in the income tax computation.

Asset retirement obligation escalated by 6% from ₱ 815 million to **₱ 861 million** on account of higher accretion rate.

Other non-current liabilities perked up 10% or ₱ 59 million to **₱ 668 million** from ₱ 609 million as of end-December 2010 prompted by the increases in cylinder deposits and cash bonds.

Total equity attributable to equity holders of the parent company rose by 9% to **₱ 57.69 billion.** The ₱4.62 billion improvement in equity was principally due to the ₱ 6.03 billion earnings realized during the first six months partly offset by cash dividends paid to preferred and common shareholders amounting to **₱1.41 billion.**

June 2010 vs December 2009

At the close of the first half of the year, Petron's **total resources** stood at**₱ 139.0 billion**, up 23% or ₱ 25.8 billion from end-December 2009 level of ₱ 113.19 billion.

Loan availments to finance capital expenditures augmented **cash and cash equivalents** by 118% or ₱ 15.34 billion to **₱ 28.32 billion**.

Financial assets at fair value through profit or loss climbed by 15% or ₱ 26.0 million from ₱ 169 million to **₱ 195 million** brought about by higher market values of investments in marketable equity securities and proprietary memberships.

Inventories-net rose to **₱ 37.66 billion** from ₱ 28.17 billion as of December 31, 2009. This was attributed to higher volume of crude and finished products equivalent to ₱ 12.76 billion partly offset by the drop in prices (2010 per liter: ₱ 24.33 vs. 2009: ₱ 26.97) from year-end level valued at ₱ 3.42 billion. There were minimal purchases in December in anticipation of the impact of the ASEAN Trade in Goods Agreement (ATIGA).

Other current assets dropped by 40% or ₱ 1.8 billion from ₱ 4.47 billion to **₱ 2.67 billion** essentially on account of filing input VAT claims on zero-rated sales.

Deferred tax assets declined this period to **₱ 6.0 million** from end-December 2009's ₱ 7 million due mainly to the effect of translation adjustment for the foreign insurance subsidiary.

Other non-current assets were higher at **₱ 3.25 billion** this year from ₱ 1.33 billion in year-end 2009 primarily traced to advances to the retirement fund.

Short-term loans and **liabilities for crude oil and petroleum product importations** slipped by 6% (₱ 3.09 billion) from ₱ 50.27 billion to **₱ 47.18 billion** due essentially to settlements made partly tempered by higher crude/finished products importations..

Trade and other payables declined to **₱ 4.28 billion** from last year's ₱ 4.92 billion traced largely to the reclassification from trade accounts receivable prepayments received from government accounts for future product purchases.

Long-term debt inclusive of current portion escalated by 81% or ₱ 15.39 billion from ₱ 18.89 billion to **₱34.28 billion** traceable to the newly-availed foreign loan amounting to US$355 million partly reduced by amortizations on outstanding loans.

Income tax payable increased to **₱ 14 million** from ₱ 10 million as at December 31, 2009 owing to higher tax liabilities reported by the subsidiaries.

Deferred income tax liabilities-net at **₱ 1.41 billion** grew almost three-fold from ₱ 514 million traceable to the impact of NOLCO as well as temporary differences reflected under parent and subsidiaries' accounts.

Other non-current liabilities moved up by 6% or ₱ 64 million to **₱ 1.12 billion** this period from ₱ 1.05 billion as of December 2009 mainly because of the increments in provision for Asset Retirement Obligation and cylinder/cash bond deposits.

Total equity attributable to equity holders of the parent closed at **₱ 50.46 billion** at the end of the first semester showing a 35% or ₱ 13.17 growth over the end-December 2009 level attributable mainly to the following:

- **₱ 9.86 billion** additional paid-in capital from the issuance of preferred shares;
- **₱ 3.54 billion** first half net income partly reduced by the **₱ 238.2 million** dividend on preferred shares.

Cash Flow

Internally cash generated funds were more than offset by the substantial increase in inventories, thus, resulted in net operating cash outflows of **₱ 1.59 billion.**

Cash outflows from investing activities was primarily used in various capital projects at the Refinery such as the Refinery Solid Fuel-Fired Power Plant and Refinery Master Plan-2; additional new service station outlets and investment in Manila North Harbor Port, Inc.

Available cash was also used partly to pay-off short-term loans and maturing long-term obligations.

In Million Pesos	June 30, 2011	June 30, 2010	Change
Operating outflows/inflows	**(₱ 1,591)**	**₱ 4,450**	**(₱ 6,041)**
Investing outflows	**(7,375)**	**(2,573)**	**(4,802)**
Financing outflows/inflows	**(12,443)**	**13,309**	**(25,752)**

Discussion of the company's key performance indicators:

Ratio	June 30, 2011	Dec 31, 2010
Current Ratio	**1.6**	**1.6**
Debt to Equity Ratio	**1.8**	**2.0**
Return on Equity (%)	**21.7**	**17.4**
Debt Service Coverage	**2.9**	**4.2**
Tangible Net worth	**58.0 billion**	**53.3 billion**

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

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

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

Debt Service Coverage: Free cash flows add available closing cash balance divided by projected debt service. This ratio shows the cash flow available to pay for debt to the total amount of debt payments to be made. It also measures the company's ability to settle dividends, interests and other financing charges.

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

SIGNATURES

Pursuant to the requirements of the Revised Securities Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant PETRON CORPORATION

Signature and Title ____________________
JOEL ANGELO C. CRUZ
Corporate Secretary

Date: August 15, 2011

Principal Financial/Accounting Officer/Controller

Signature and Title ____________________
EFREN P. GABRILLO
Assistant Vice President - Controllers

Date: August 15, 2011