

ANNEX "D"



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

	March 31, 2011 Unaudited	December 31, 2010 Audited
A S S E T S		
Current Assets		
Cash and cash equivalents	P 31,726	P 43,984
Financial assets at fair value through profit or loss	194	227
Available-for-sale financial assets	147	178
Trade and other receivables - net	21,522	24,266
Inventories	48,776	28,145
Other current assets	5,527	4,286
	<u>107,892</u>	<u>101,086</u>
Assets held for sale	823	823
Total Current Assets	108,715	101,909
Non-Current Assets		
Property, plant and equipment - net (Note 3)	35,562	34,957
Investment in associates (Note 6)	1,352	804
Investment properties	118	119
Available-for-sale financial assets	1,035	983
Deferred tax assets	87	28
Other noncurrent assets	22,726	23,016
Total Noncurrent Assets	60,880	59,907
	P 169,595	P 161,816
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans (Note 10)	P 24,306	P 32,457
Liabilities for crude oil and petroleum product importation	22,691	11,194
Trade and other payables	8,769	6,744
Derivative liabilities	12	30
Current portion of long-term debt - net	11,324	11,517
Income tax payable	468	14
Total Current Liabilities	67,570	61,956
Noncurrent Liabilities		
Long-term debt - net of current portion	42,493	42,885
Retirement benefits liability	249	249
Deferred tax liabilities	1,342	1,958
Asset retirement obligation	842	815
Other noncurrent liabilities	631	609
Total Noncurrent Liabilities	45,557	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	36,850	33,748
Other reserves	94	83
Total Equity Attributable to Equity Holders of the Parent Company	56,183	53,070
Non-controlling interest	285	274
Total Equity	56,468	53,344
	P 169,595	P 161,816

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

Certified by:

JEFFREY P. GABRILLO
 Assistant Vice President - Controllers




PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE PERIOD ENDED MARCH 31, 2011 and 2010
(Amounts in Million Pesos, Except Per Share Amounts)
(UNAUDITED)

	2011	2010
SALES (Note 5)	P 64,050	P 55,883
COST OF GOODS SOLD	55,529	51,402
GROSS PROFIT	8,521	4,481
SELLING AND ADMINISTRATIVE EXPENSES	(1,525)	(1,336)
INTEREST INCOME	375	58
INTEREST EXPENSE	(1,319)	(943)
SHARE IN NET LOSS OF AN ASSOCIATE	(52)	-
OTHER INCOME (CHARGES) -net	(1,412)	364
INCOME BEFORE INCOME TAX	4,588	2,624
INCOME TAX EXPENSE	1,154	692
NET INCOME	P 3,434	P 1,932
Attributable to:		
Equity holders of the parent company	P 3,425	P 1,922
Non-controlling interest	9	10
	P 3,434	P 1,932
BASIC DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	P 0.34	P 0.21

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

Certified by:


EFREN P. GABRILLO
Assistant Vice President - Controllers



PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED MARCH 31, 2011 AND 2010
(Amounts in Million Pesos)

	<u>2011</u>	<u>2010</u>
NET INCOME	P 3,434	P 1,932
NET GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS - NET OF TAX	(89)	-
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	17	10
OTHER COMPREHENSIVE INCOME - NET OF TAX	<u>(72)</u>	<u>10</u>
TOTAL COMPREHENSIVE INCOME	<u>P 3,362</u>	<u>P 1,942</u>
Comprehensive Income Attributable to:		
Equity holders of the Parent Company	P 3,352	P 1,932
Non-controlling Interest	<u>9</u>	<u>10</u>
	<u>P 3,362</u>	<u>P 1,942</u>

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

Certified by:


EFREN V. GABRILLO
Assistant Vice President-Controllers

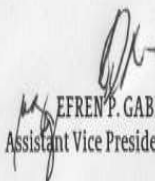


PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED MARCH 31, 2011 AND 2010
 (Amounts in Million Pesos)

	Equity Attributable to Equity Holders of the Parent Company								
	Preferred Stock	Common Stock	Additional paid-in capital	Retained Earnings			Other Reserves	Total	Non- controlling Interest
Appro- priated				Unappro- priated					
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					3,341	12	3,353	9	3,362
Appropriation for capital projects				(10)	10		-		-
Cash dividends (Note 12)					(238)		(238)		(238)
Issuance of shares							-		-
Balance at March 31, 2011	P 100	P 9,375	P 9,764	P 15,544	P 21,307	P 95	P 56,185	P 283	P 56,468
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					1,922	10	1,932	10	1,942
Issuance of shares	100		9,764				9,864		9,864
Balance at March 31, 2010 (Unaudited)	P 100	P 9,375	P 9,764	P 15,492	P 14,444	(P 88)	P 49,087	P 254	P 49,341

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

Certified by:


EFREN P. GABRILLO
 Assistant Vice President-Controllers



PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED March 31, 2011 and 2010
(Amounts in Million Pesos)
(UNAUDITED)

	2011		2010	
	P	4,588	P	2,624
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax				
Adjustments for:				
Share in loss of associate		52		-
Depreciation and amortization		900		854
Interest expense		1,319		943
Interest income		(375)		(58)
Net unrealized foreign exchange gain		(155)		(72)
Others		(87)		18
Operating income before working capital changes		6,242		4,309
Changes in operating assets and liabilities				
Decrease (increase) in assets:				
Receivables		446		1,179
Inventories		(20,631)		(13,034)
Other current assets		(1,251)		(1,888)
Increase (decrease) in liabilities:				
Liabilities for crude oil and petroleum product importation		11,567		16,789
Accounts payable and accrued expenses		1,691		(1,044)
Provisions for doubtful accounts, inventory obsolescence and others		1		(70)
Interest paid		(931)		(940)
Income taxes paid		(22)		(341)
Interest received		393		49
Net cash flows provided by (used in) operating activities		(2,495)		5,010
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Property, plant and equipment		(1,505)		(2,103)
Decrease (increase) in:				
Other receivables		910		2,233
Other noncurrent assets		(485)		(22)
Reductions from (additions to):				
Financial assets at fair value through profit or loss		34		-
Available-for-sale investments		(21)		(16)
Investments		176		-
Net cash flows provided by (used in) investing activities		(891)		92
CASH FLOWS FROM FINANCING ACTIVITIES				
Availment of loans		14,737		42,836
Payments of:				
Loans		(23,359)		(53,396)
Cash dividends		(246)		(0)
Issuance of Preferred Stock		-		9,864
Others		35		19
Net cash flows used in financing activities		(8,832)		(676)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(40)		(22)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(12,258)		4,403
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		43,984		12,985
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P	31,726	P	17,388

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

Certified by:


EFREN PAGABRILLO
Assistant Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Par Share Data)

1. Reporting Entity

Petron Corporation (the “Parent Company” or “Petron”) was incorporated under the laws of the Republic of the Philippines and is registered with the Philippine Securities and Exchange Commission (SEC) on December 15, 1966. The condensed consolidated interim financial statements as at and for the first quarter ended March 31, 2011 comprise of the financial statements of Petron Corporation and Subsidiaries (collectively referred to as the “Group”) and the Group’s interest in associates and jointly controlled entity. Petron is the largest oil refining and marketing company in the Philippines supplying nearly 40% of the country’s fuel requirements. Petron’s vision is to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

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

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

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its consolidated interim financial statements as of and for the period ended March 31, 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 (P000,000), 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.

Basis of Measurement

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

Adoption of New Standards, Amendments to Standards and Interpretations

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 Group:
 - PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.
 - 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 Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of 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.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the condensed consolidated interim financial statements as they become reasonably determinable. Actual results may differ from these estimates.

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation were the same as those applied by the Group in its audited consolidated financial statements as of and for the year ended December 31, 2010.

4. 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 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 March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and 2010. Segment assets and liabilities exclude deferred tax assets and deferred tax liabilities:

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
<u>Period Ended Mar. 31, 2011</u>						
Revenue						
External Sales	₱63,560	₱ -	₱ -	₱490	₱ -	₱64,050
Inter-segment Sales	64,297	32	87	-	(64,416)	-
Segment results	6,834	26	37	22	77	6,996
Net income	3,353	44	16	27	(6)	3,434
<u>As of Mar. 31, 2011</u>						
Assets and liabilities						
Segment assets	166,692	2,220	3,083	980	(3,467)	169,508
Segment liabilities	111,287	677	2,159	155	(2,492)	111,786
Other segment information						
Property, plant and equipment	32,268	-	-	371	2,923	35,562
Depreciation and amortization	891	-	-	9	-	900
<u>Period Ended Mar. 31, 2010</u>						
Revenue						
External Sales	₱54,781	₱ -	₱ -	₱1,102	₱ -	₱55,883
Inter-segment Sales	742	33	82	-	(857)	-
Segment results	2,992	33	32	46	42	3,145
Net income	1,841	44	16	43	(13)	1,932
<u>As of Dec. 31, 2010</u>						
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 March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and 2010:

	Retail	Lube	Gasul	Industrial	Others	Total
<u>Property, plant and equipment</u>						
As of March 31, 2011	₱4,778	₱324	₱189	₱54	₱26,923	₱32,268
As of December 31, 2010	4,525	345	181	43	26,656	31,750
<u>Capital Expenditures</u>						
As of March 31, 2011	₱212	₱ (1)	₱13	₱3	₱3,864	₱4,091
As of December 31, 2010	169	1	8	2	2,615	2,795
<u>Revenue</u>						
Period ended Mar. 31, 2011	₱25,520	₱546	₱4,868	₱24,104	₱8,755	₱63,793
Period ended Mar. 31, 2010	22,596	478	3,786	23,159	5,503	55,522

Geographical Segments

The following table presents revenue information regarding the geographical segments of the Group for the three months ended March 31, 2011 and 2010.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
<u>Period ended Mar. 31, 2011</u>						
Revenue						
Local	₱56,943	₱23	₱87	₱490	(₱630)	₱56,913
Export/International	70,913	9	-	-	(63,785)	7,137
<u>Period ended Mar. 31, 2010</u>						
Revenue						
Local	₱51,448	₱19	₱82	₱1,102	(₱856)	₱51,795
Export/International	4,074	14	-	-	-	4,088

5. 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% or 2,450,000 of the outstanding and issued capital stock of Manila North Harbour Port Inc. (MNHPI). Under the Shareholders' Agreement with HCPTI, Petron is entitled to appoint 3 directors to MNHPI's 7-member Board of Directors as well as the right to appoint the Chief Finance Officer and Assistant Corporate Secretary.

6. Property, Plant and Equipment

During the three months ended March 31, 2011, net additions to property, plant and equipment amounted to ₱1,377 (December 31, 2010: ₱2,833).

Capital Commitments

As of March 31, 2011, the Group has outstanding commitments to acquire property, plant and equipment amounting to ₱1,538 (December 31, 2010: ₱1,142).

7. 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 209 parking lots. On December 1, 2010, Petron's BOD approved the sale of these properties to provide cash flows for various projects. The carrying amount of the investment property as of March 31, 2011 and December 31, 2010 of P823 is presented as "Assets held for sale" in the consolidated statement of financial position.

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

8. Fuel Supply Contract

The Parent Company entered 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 three months ended March 31, 2011, the following are the fuel supply contracts granted to Petron:

Bid Date	Date of Award	Contract Duration	IFO** (in KL**)	IFO (in MP**)	DFO** (in KL)	DFO (in MP)
Jan 12, '11	Jan 31, '11	Jan to Dec '11	44,587	1,127,417	15,192	489,774
Mar 10, '11	Mar 23, '11	Apr to Jun '11	4,833	139,990	9,560	373,171

***IFO = Industrial Fuel Oil*

DFO = Diesel Fuel Oil

KL = Kilo Liters

MP = Thousand Pesos

9. Related Party Transactions

Lease Agreement

On September 30, 2009, NVRC entered into a 25-year lease with the PNOC without rent-free period, covering a property which shall use for refinery, commencing January 1, 2010 and ending on December 31, 2039. The annual rental shall be P93 payable on the 15th day of January each year without the necessity of demand. This non-cancelable lease is subject to renewal options and annual escalation clauses of 3% per annum up to 2011. The leased premises shall be reappraised starting 2012 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the appraisal. Prior to this agreement, Petron has an outstanding lease agreement on the same property from PNOC. Also, as of March 31, 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 Parent Company's supply agreements with various SMC subsidiaries. Under these agreements, Parent Company supplies the bunker, diesel fuel and lube requirements of selected SMC plants and subsidiaries.

- b. Purchases relate to purchase of goods and services such as construction, information technology and shipping.
- c. Petron entered into lease agreement with San Miguel Properties, Inc. for its office space covering 6,759 square meters with a monthly rate of P4.8. The lease, which commence on June 1, 2010, is for a period of one year and is subject to yearly extensions.
- d. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- e. The Parent Company has advances to Petron Corporation Employee Retirement Plan (PCERP) amounting to P21,003 and P22,015 as of March 31, 2011 and December 31, 2010, respectively, included as part of "Other noncurrent assets" account.

10. Loans and Borrowings

Short term loans

The movements of short-term loans for the three months ended March 31, 2011 follows:

Balance at January 1, 2011	P32,457
Loan availments	14,737
Loan repayments	(22,888)
Balance at March 31, 2011	P24,306

Average interest rates and maturities for these loans are consistent with that of December 31, 2010.

11. Earnings Per Share

Basic and diluted earnings per share amounts for the three-months ended March 31, 2011 and 2010 are as follows:

	2011	2010
Net income attributable to equity holders of the Parent Company	P3,425	P1,922
Dividends on preferred shares for the period	238	-
Net income attributable to common shareholders of Parent Company	P3,187	P1,922
	9,375,104,49	
Weighted average number of common shares	7	9,375,104,497
Basic/diluted earnings per share	P0.34	P0.21

12. Dividends

On February 2, 2011, the Parent Company's BOD declared cash dividend at P2.382/share payable on March 7, 2011 to all preferred shareholders as of February 21, 2011.

13. Seasonal Fluctuations

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

14. Commitments and Contingencies

Supply Agreements

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

Unused Letters of Credit and Outstanding Standby Letters of Credit

Petron has approximately unused letters of credit amounting to ₱5 as of March 31, 2011 and ₱4 as of December 31, 2010. On the other hand, outstanding standby letters of credit for crude importations amounted to ₱11,197 and ₱8,756 as of March 31, 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 is contesting the BIR’s assessment before the Philippine Court of Tax Appeals (“CTA”). In July 1999, the CTA ruled that, as a fuel supplier of Board of Investments-registered companies, the Parent Company is a qualified transferee of the TCCs. Following an unfavorable ruling from the CTA En Banc, Petron filed an appeal to the Supreme Court. A Resolution was issued by the Supreme Court (1st Division) on September 13, 2010 denying with finality Commission of Internal Revenue’s motion for reconsideration of the Decision dated July 28, 2010.

In November 1999, the BIR issued a P284 assessment against the Parent Company for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance (“DOF”) of tax debit memos, the related TCCs and their assignment to the Parent Company. The Parent Company contested the assessment before the CTA. In August 2006, the CTA denied the 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.

Pandacan Terminal Operations

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

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

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

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

In compliance with the February 13 Resolution, the Parent Company, Shell and Chevron have submitted their relocation plans to the RTC.

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

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

Bataan Real Property Tax Cases

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

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

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

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

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

appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

On April 15, 2011, Petron and Bataan have 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.

15. Financial Risk Management Objectives and Policies

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

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

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

Risk Management Structure

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

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

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

1. The Investment and Risk Management Committee, which is composed of the Chairman of the Board, President, and Vice Presidents of Petron, reviews the adequacy of risk management policies.
2. A cross-functional Commodity Risk Management Committee, which oversees crude oil and petroleum product hedging transactions. The Secretariat of this committee is the Commodity Risk Manager, who is responsible for risk management of crude and product imports, as well as product margins.
3. The Financial Risk Management Unit of the Treasurer's Department, which is in charge

- of foreign exchange hedging transactions.
4. The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.
 5. The Corporate Technical & Engineering Services Department, which oversees strict adherence to safety and environmental mandates across all facilities.
 6. The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.

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

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

Foreign Currency Risk

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

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

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

Information on the Group's US dollar-denominated financial assets and liabilities and their Philippine peso equivalents as of March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011		December 31, 2010	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	584	25,342	648	28,395
Trade and other receivables	753	32,658	173	7,606
Non-current receivables	3	127	1	29
	1,340	58,127	822	36,030
Liabilities				
Drafts and loans payable	162	7,013	59	2,573
Liabilities for crude oil and petroleum product importation	1,131	49,085	288	12,606
Long-term debt (including current maturities)	355	15,403	355	15,563
	1,648	71,501	702	30,742
Net foreign currency-denominated monetary assets	(308)	(13,374)	120	5,288

The Group reported net foreign exchange gains amounting to ₱99 and ₱17 for the period ending March 31, 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
March 31, 2010	45.17
March 31, 2011	43.39

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of profit before tax and equity as of March 31, 2011 and December 31, 2010:

	₱1 decrease in the US\$ exchange rate		₱1 increase in the US\$ exchange rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
March 31, 2011				
Cash and cash equivalents	(₱575)	(₱412)	₱575	₱412
Trade and other receivables	(87)	(726)	87	726
Noncurrent receivables	-	(3)	-	3
	(662)	(1,141)	662	1,141
Drafts and loans payable	-	162	-	(162)
Liabilities for crude oil and petroleum product importation	643	938	(643)	(938)
Long-term debt (including current maturities)	355	249	(355)	(249)
	998	1,349	(998)	(1,349)
	₱336	₱208	₱336	(₱208)

	₱1 decrease in the US\$ exchange rate		₱1 increase in the US\$ exchange rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2010				
Cash and cash equivalents	(₱642)	(₱455)	₱642	₱455
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)
	₱99	₱90	₱99	₱90

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 ₱176 and ₱180 in the period ending March 31, 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 March 31, 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:

March 31, 2011	<1 year	1-<2 years	2-<3 years	3-<4 years	4-<5 years	>5 years	Total
Fixed rate							
Philippine peso denominated	₱6,963	₱48	₱48	₱5,248	₱48	₱24,512	₱36,867
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	1,100	600	450	-	-	-	2,150
Interest rate	net 1M SDA + margin, 3-mo. Mart1/PDSTF + margin	net 1M SDA + margin	net 1M SDA + margin				
US\$ denominated (expressed in Php)	3,423	3,423	3,423	3,423	1,711	-	15,403
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		
	₱11,486	₱4,071	₱3,921	₱8,671	₱1,759	₱24,512	₱54,420

*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	₱6,963	₱202	₱48	₱5,248	₱48	₱24,511	₱37,020
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		
	₱11,689	₱4,261	₱4,106	₱8,706	₱1,777	₱24,511	₱55,050

16. Events after the Reporting Date

On May 11, 2011, the BOD approved cash dividend of ₱2.382/share to preferred stockholders and ₱0.10/share to common stockholders on record as of May 26, 2011 with payment date of June 6, 2011.



Petron Corporation and Subsidiaries
Receivables
March 31, 2011
(Amounts in Millions)

Accounts Receivable - Trade	13,385
Accounts Receivable - Non-Trade	8,137
Total Accounts Receivable	<u>21,522</u>

AGING OF TRADE ACCOUNTS RECEIVABLES

1-30 days	12,048
31-60 days	838
61-90 days	215
Over 90 days	1,336
	<u>14,437</u>
Allowance for doubtful accounts	1,052
Accounts Receivable - Trade	<u>13,385</u>

Interim Financial Report as of March 31, 2011

Management's Discussion and Analysis of Financial Position and Performance

Financial Performance

2011 vs 2010

For the first quarter of 2011, Petron's consolidated net income reached **₱ 3.43 billion**, a significant improvement from the **₱ 1.93 billion** profit reported during same period last year largely due to better margins tempered by higher non-operating expenses.

(In Million Pesos)	2011	2010	Variance- Fav (Unfav)	
			Amt	%
Sales	64,050	55,883	8,167	15
Cost of Goods Sold	55,529	51,402	(4,127)	(8)
Gross Margin	8,521	4,481	4,040	90
Selling and Administrative Expenses	1,525	1,336	(189)	(14)
Non-operating Charges	2,408	521	(1,887)	high
Net Income	3,434	1,932	1,502	78
EBITDA	6,344	4,399	1,945	44
Sales Volume (MB)	11,534	11,640	(106)	(1)
Earnings per Share	0.34	0.21	0.13	62
Return on Sales (%)	5.4	3.5	1.9	54

Gross margin grew by almost two-fold as MOPS prices in the region steadily went up triggering the series of price hikes in domestic fuel prices. Similarly, the increase in export sales (2011: 1,384MB vs. 2010: 867MB), particularly petrochemical products, boosted the company margin. Meanwhile, the average price of benchmark Dubai crude increased from US\$77.31/bbl in March 2010 to US\$108.71/bbl in March this year.

With the improved bottom line, earnings before interest, taxes, depreciation and amortization (EBITDA) of **₱ 6.34 billion**, also surpassed the **₱ 4.40 billion** level a year earlier .

Similarly, Earnings per share went up by 62% to **₱ 0.34** from **₱ 0.21** of the prior year while return on sales grew from 3.5% to 5.4%.

Major contributory factors are the following:

Gross margin (GM) of **₱ 8.52 billion** almost doubled the **₱ 4.48 billion** profit realized during the first quarter of 2010. The following accounted for the variance in gross margin:

- ◆ Sales volume for the first three months of 2011 slid to 11.5MMB from previous year's 11.6MMB as current level of prices resulted in the 6% (2011: 10,150MB vs. 2010: 10,773MB) contraction of the domestic market. Meanwhile, the slowdown in local sales was tempered by the 60% growth in exports. On a per product basis, the 1% drop in sales volume was the net effect of the 579MB total decline in diesel, fuel oil and gasoline and the 497MB combined increase in LPG, Propylene, Mixed Xylene and Jet A1 sales.

- ◆ **Net sales** grew by 15% to **₱ 64.05 billion** from **₱ 55.88 billion** the year before essentially due to the escalation in average selling price per liter (2011: ₱ 34.08 vs. 2010: ₱ 29.54) prompted by the 34% spike in regional MOPS prices (2011 Ave - US\$107.67/bbl vs. 2010 Ave - US\$80.29/bbl).
- ◆ **Cost of Goods Sold (CGS)** increased to **₱ 55.53 billion** from previous year's **₱ 51.40 billion** as the landed cost of crude that largely comprised the total CGS was also higher during the current period (2011: US\$91.97/bbl vs. 2010: US\$79.13/bbl).
- ◆ **Refinery Operating Expenses** rose to **₱ 1.31 billion** from **₱ 1.19 billion** during same period last year. This was mainly attributable to increased power consumption due to incremental crude run (2011: 120.3MBCD vs 2010: 107.2 MBCD) and higher cost per kilowatt-hour (2011: ₱ 6.38 vs 2010: ₱ 4.78). Employee costs also moved up due to additional manpower complement, salary increase and payment of signing bonus for rank-and-file employees
- ◆ **Selling and Administrative Expenses** went up by 14% from **₱ 1.34 billion** to **₱ 1.52 billion** as newly built service stations resulted in increased rent, taxes and depreciation. Materials and supplies also went up due acquisition of LPG cylinders. Given the higher expenses despite lower volume, **opex per liter** of volume sold deteriorated from **₱ 0.72** last year to **₱ 0.83** this year.
- ◆ **Net Financing Costs and Other Charges** were substantially higher at **₱ 2.41 billion** than the **₱ 0.52 million** level as of March 2010. The unfavorable variance was mainly due to the **₱ 1.65 billion** recorded loss on commodity hedging transactions. Meanwhile, the increase in interest expense due to the US\$355 million NORD loan and **₱ 20 billion** peso-denominated bond availed in June and November 2010, respectively, was offset by interest earned on advances to Petron Corporation Employee Retirement Plan, as well as higher earnings from investments in marketable securities.

2010 vs 2009

Financial Highlights- January to March 31, 1010			
(In Million Pesos)	2010	2009	% Inc (Dec)
Sales	55,883	34,649	61
Cost of Goods Sold	51,402	30,999	66
Gross Margin	4,481	3,650	23
Selling & Administrative	1,336	1,301	3
Non-operating Charges	521	1,102	(53)
Net Income- Consolidated	1,932	874	121
EBITDA	4,399	3,240	36
Sales Volume (MB)	11,640	9,785	19
Earnings per Share	0.21	.09	133
Return on Sales	3%	3%	1

Petron's first quarter net profit more than doubled from last year triggered by increased sales volumes and higher margins from petrochemical sales with the completion/start of operations of the BTX plant last year. It could be recalled that the refinery was in TPS first quarter of 2009. Earnings were further boosted by

the drop in financing costs and higher unrealized commodity hedging gains following more stable crude and finished products prices as well as foreign exchange gains resulting from favorable foreign currency effects.

Accordingly, earnings before interest, taxes, depreciation and amortization (EBITDA) totaled **₱ 4.4 billion**, up 36% from the same quarter a year ago.

Earnings per share also moved up by 133% to **₱ 0.21** from last year's **₱ 0.09**. **Return on sales** was at par with the previous year's 3%.

Major contributory factors follow:

- ◆ **Gross Margin (GM)** of **₱ 4.5 billion** grew by 23% from prior year's **₱ 3.7 billion**. This can be attributed to favorable margins from domestic and export markets as regional product prices became stable this year. Meanwhile, **GM rate** declined to 8% from 11% in 2009 mainly on account of heavier sales mix with higher IFO sales.

The following accounted for the variance in gross margin:

- ◆ **Sales volume** as of YTD March 2010 was at **11.6 MMB** posting a 19% hike over last year owing mainly to the surge in domestic sales particularly of IFO to independent power producers with the shift to fuel from hydro power due to El Niño phenomenon. Volume of diesel sold to dealers, likewise increased due to inventory build up in anticipation of more price hikes. Exports were also bolstered by higher petrochemical sales of mixed xylene, propylene, benzene and toluene as against last year's lone sales of mixed xylene as the refinery was in TPS in the first quarter.
- ◆ **Net sales** of **₱ 55.9 billion** surpassed 2009 level of **₱ 34.6 billion** brought about by higher average price per liter (2010: **₱ 29.56** vs. 2009: **₱ 21.71**). Higher MOPS prices (2010: **US\$80.29/bbl** vs. 2009: **US\$50.31/bbl**) augmented by incremental sales volumes were mainly responsible for the upward movement in net sales.
- ◆ **Cost of Goods Sold (CGS)** also escalated by **₱ 20.4 billion** or 66% to **₱ 51.4 billion** from the previous year's **₱ 31.0 billion** accounted for mainly by higher FOB \$/bbl of crude this year that formed part of CGS (2010: **US\$77.21** vs. 2009: **US\$52.53**) and increased import costs. In 2009, only 24% was sourced from crude as the refinery was in TPS and importation costs were much lower compared to 2010 (2010: **₱ 24.90** vs. 2009: **₱ 16.55**).
- ◆ **Refinery Operating Expenses** treated as part of CGS dropped slightly by **₱ 23 million** to **₱ 1.9 billion**. Decreased expenditures were noted largely on maintenance and repairs partly offset by higher recorded expenditures on purchased utilities and materials and supplies all related to the TPS in 2009.
- ◆ **Selling and Administrative Expenses** level was maintained at **₱ 1.3 billion** as the incremental employee-related costs and maintenance and repairs traced to network expansion were mitigated by lower advertising and insurance expenses. On a **peso per liter** basis, this year's OPEX went down to **₱ 0.72** from prior year's **₱ 0.84**.
- ◆ **Net Financing Costs and Other Charges** dropped by 53% (**₱ 581 million**) mainly brought about by decreasing financing charges complemented by escalating non-operating income specifically commodity hedging and foreign-exchange gains. **Interest expense** largely on short-term peso loans was lower this period by **₱ 243 million** due to declines in both average short-term borrowing levels (2010: **₱ 35.5 billion** vs. 2009: **₱ 44.8 billion**) and borrowing rates (2010: 4.3% vs. 2009: 7.6%).

Financial Position

2011 vs 2010

Total assets as of March 2011 grew by 5% or **₱ 7.78 billion** to **₱ 169.60 billion** from end-December 2010 level of **₱ 161.82 billion** due to the combined effects of the following:

Cash and cash equivalents were reduced by 28% to **₱ 31.73 billion** mainly due to settlement of loans, purchase of property and equipment, and acquisition of 35% ownership interest in Manila North Harbour Port, Inc.

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

Trade and Other Receivables-net of **₱ 21.52 billion**, showed an 11% or **₱ 2.74 billion** improvement from the **₱ 24.27 billion** level as at end of 2010 chiefly due to lower government receivables.

Inventories substantially increased from **₱ 28.14 billion** to **₱ 48.78 billion** owing to higher crude volume and price (Mar 2011 - 5.91MMB @ US\$114.54/bbl vs Dec 2010 - 2.88MMB @ US\$91.65/bbl).

Other current assets of **₱ 5.53 billion** surpassed the **₱ 4.29 billion** level in December 2010 traced mainly to higher Input VAT.

Investment in associates went up from **₱ 0.80 billion** to **₱ 1.35 billion** with the acquisition of 35% interest in Manila North Harbor Port, Inc. amounting to **₱ 600 million**, net of the **₱ 52 million** equity in net loss of Petrochemical Asia Hongkong Ltd.

Deferred tax assets net moved up to **₱ 87 million** from **₱ 28 million** in 2010 mainly due to the recognition of deferred tax asset on the translation adjustments of a foreign subsidiary.

Short-term loans and liabilities for crude oil and petroleum product importations recorded an 8% increase (**₱ 3.35 billion**) to **₱ 47.00 billion**. Partial payment of short-term loan was more than offset by higher crude importations in March 2011 (4.19MMB @ US\$116.74/bbl) compared to December 2010 (2.05MMB @ US\$90.91/bbl).

Trade and other Payables escalated by 30% from **₱ 6.74 billion** to **₱ 8.77 billion** prompted by higher liabilities to contractors and suppliers as the construction of major Refinery projects have already started.

Derivative Liabilities of **₱ 12 million** was lower than the **₱ 30 million** level in 2010 mainly due to marked-to-market gains on outstanding embedded derivatives.

Income tax payable went up significantly from **₱ 14 million** to **₱ 468 million** due to higher taxable income during the quarter since the December 2010 taxable income considered the net operating loss carry-over (NOLCO) of prior years. In addition, last year's tax due was reduced by the utilization of past years' MCIT as against zero this year.

Deferred tax liabilities-net at **₱ 1.34 billion** dropped considerably from **₱ 1.96 billion** largely due to the impact of the application of NOLCO.

Total equity attributable to equity holders of the parent company aggregated to **₱ 56.2 billion** at the end of March 2011 registering a 6% or **₱ 3.1 billion** growth over the end-December 2010 level principally due to first quarter earnings of **₱ 3.43 billion** partly offset by cash dividend to preferred shareholders amounting to **₱ 238.2 million**.

Other reserves increased by 13% to **₱ 94 million** mainly due to the movement of foreign exchange rate in translating the net assets of foreign subsidiaries.

2010 vs 2009

As at the close of the first quarter of 2010, **Petron's Consolidated Resources** stood at **₱ 130.7 billion**, 15% or **₱ 17.5 billion** up than end-December 2009 level of **₱ 113.2 billion**.

Cash & cash equivalents rose by **₱ 4.4 billion** (34%) to **₱ 17.4 billion** sourced mainly from the proceeds of preferred shares offering.

Trade and Other Receivables- net slid by **₱ 2.2 billion** (7%) to **₱ 27.5 billion** due to combined effects of increased collections from trade customers and application of tax credit certificates.

Inventories- net moved up by **₱ 13.1 billion** (47%) to **₱ 41.3 billion** due mainly to higher crude inventory level (by 3.3 MMB) valued at **₱ 14.2 billion** in anticipation of the rising crude prices in April and May 2010.

Other Current Assets reached **₱ 5.4 billion**, **₱ 891 million** (20%) more than end-2009's **₱ 4.5 billion** attributable mainly to increased prepaid expenses and taxes.

Deferred Tax Asset went up to **₱ 13 million** (by **₱ 6 million**, 86%) due to the reversal of gains in foreign reinsurer subsidiary's translation adjustment.

Short-term loans dropped by 24% to **₱ 32.5 billion** from **₱ 42.7 billion** emanating from more cash to pay-off loans.

Liabilities for crude and petroleum product importations increased more than three-folds to **₱ 24.2 billion** from end-December's **₱ 7.5 billion** due to higher crude purchases.

Trade and Other Payables was reduced to **₱ 3.8 billion** from **₱ 4.9 billion** in end-December 2009 mainly on account of lower liabilities to contractors and suppliers.

Income tax payable moved up to **₱ 19 million** from **₱ 10 million** primarily due to higher liabilities of the retail subsidiaries.

Deferred income tax liabilities rose to **₱ 1.2 billion** from **₱ 514 million** attributable to the temporary differences, particularly the recognized NOLCO and effect of unrealized commodity hedging/forex gains.

Total equity attributable to equity holders of the parent grew by **₱ 11.8 billion** (31%) to **₱ 49.1 billion** mainly on account of the following:

- Issuance of **₱ 9.8 billion preferred shares** in March 2010 at par value of **₱ 1** per share; and,
- YTD March net income of **₱ 1.9 billion**.

Cash Flow

Due to substantial increase in inventories specifically crude, operating activities resulted in a net cash outflows of **₱ 2.50 billion**. Similarly, available cash balance was used to settle liabilities.

In Million Pesos	March 31, 2011	March 31, 2010	Change
Operating outflows/inflows	(₱ 2,495)	₱ 5,009	(₱ 7,504)
Investing outflows/inflows	(891)	92	(983)
Financing outflows	(8,832)	(676)	(8,156)

Discussion of the company's key performance indicators:

Ratio	March 31, 2011	Dec 31, 2010
Current Ratio	1.6	1.6
Debt to Equity Ratio	2.0	2.0
Return on Equity (%)	25.0	17.4
Debt Service Coverage	3.4	4.2
Tangible Net worth	₱ 56.5B	₱ 53.3B

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.

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

Gross Domestic Product (GDP)

The Philippines robustly recovered and expanded by 7.3% in 2010 after the slow economic growth of only 1.1% in 2009 due to the ill effects of the global economic crisis. The country benefitted from the improvement in the global economy, high election-spending, hefty rebound of trade, and favorable business conditions in the domestic

91-Day Treasury-Bill Rate

91-day T-bills averaged 1.2% in the first quarter 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. This is despite the slightly rising inflation and increasing policy rates of the Bangko Sentral ng Pilipinas (BSP).

Peso-Dollar Exchange Rate

The local currency sustained its strength and averaged P43.8/\$ in the first quarter of 2011 from 2010 FY average of P45.1/\$ and 1Q10 average of P46.0/\$. The sustained growth of OFW remittances, continuous growth of exports, and strong investor appetite contributed to the peso's appreciation.

Inflation

Inflation averaged 4.0% in the first three months of 2011, lower than the 4.3% average registered in the same period last year but up from FY 2010's 3.8% average. Prices especially those of commodities like fuel, light, and water, and services have been higher in the first quarter compared to end 2010. The average inflation in the first quarter still remains within the government's target inflation of 3-5% in FY 2011.

Dubai price

Dubai crude averaged \$100.9/bbl in the first quarter of 2011, a large leap from the \$76.0/bbl average in the same period in 2010 and \$78.1/bbl average in FY 2010. The surge of crude prices was triggered by the heightened turmoil in the oil-exporting regions Middle East and North Africa, disrupting supply of crude. Improved outlook for world oil demand, and high investment in oil with the weakness of the dollar and strength of the equities market, also boosted crude prices.

Industry Oil Demand

Data from DOE shows that as of February 2011, total oil industry demand dropped by 4.1% from 299.5MBD in the same period last year to only 287.2 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 February 2011, the new players (excluding direct imports) have collectively cornered around 23.8% of the total oil market. Collectively, the new players are leading the LPG market segment with 45.7% market share.

Updates on 2010 Capital Program

The 2011 capital program endorsed last December 2010 is P88.6 billion. Of this amount P20.2 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.

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

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

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 2011 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.

Significant elements of income or loss that did not arise from the issuer's continuing operations

There are no elements of income or loss that did not arise from the Registrant's continuing operations.

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

In November 1999, the BIR issued a P284 assessment against the Parent Company for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance ("DOF") of tax debit memos, the related TCCs and their assignment to the Parent Company. The Parent Company contested the assessment before the CTA. In August 2006, the CTA denied the 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.

Pandacan Terminal Operations

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

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

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

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

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

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

Bataan Real Property Tax Cases

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

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

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

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

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

On April 15, 2011, Petron and Bataan have 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 CBA last April 25, 2011, a Joint Motion for the approval of the Compromise Agreement.

All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or persons created during the reporting period.

There are no off-balance sheet transactions, arrangements and obligations with unconsolidated entities or persons during the reporting period.

Upon the written request of a stockholder, the Company undertakes to furnish said stockholder a copy of the Company's annual report on SEC Form 17-A free of charge. Such written request should be directed to the Office of the General Counsel & Corporate Secretary, Petron Corporation, Podium A, SMC Head Office Complex, 40 San Miguel Avenue, 1550 Mandaluyong City.