

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 March 31, 2010.
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
8. (0632) 886-3888
Registrant's telephone number, including area code
9. Petron MegaPlaza, 358 Sen. Gil J. Puyat Avenue, Makati City 1200
(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
<u>Common Stock</u>	<u>9,375,104,497 Shares</u>
<u>Preferred Stock</u>	<u>100,000,000 Shares</u>

.....

.....

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 Sections 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 No

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

Yes No

TABLE OF CONTENTS

Page No.

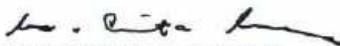
PART I - FINANCIAL INFORMATION		
Item 1	Financial Statements	
	Petron Corporation & Subdiaries Consolidated Statement of Financial Position	4
	Petron Corporation & Subdiaries Statements of Income	5
	Petron Corporation & Subdiaries Consolidated Statement of Comprehensive Income	6
	Petron Corporation & Subdiaries Consolidated Statement of Changes in Equity	7
	Petron Corporation & Subdiaries Consolidated Statement of Cash Flows	8
	Selected Notes to Consolidated Financial Statements	9-23
	Details of Accounts Receivables	24
Item 2	Management's Discussion and Analysis of Financial Conditions and Results of Operations	25-35
PART II - OTHER INFORMATION		
SIGNATURES		36



PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2010
(With Comparative Figures for the year ended December 31, 2009)
(Amounts in Millions of Pesos)

	Mar 31, 2010	Dec 31, 2009
	Unaudited	Audited
A S S E T S		
Current Assets		
Cash and cash equivalents	P 17,388	P 12,985
Financial assets at fair value through profit or loss	162	169
Available-for-sale investments	-	170
Trade and Other Receivables - net	27,543	29,696
Inventories - net	41,287	28,169
Other current assets	5,358	4,467
Total Current Assets	91,738	75,656
Non-Current Assets		
Available-for-sale investments	1,371	1,185
Property, plant and equipment- net	36,037	34,784
Investment properties - net	228	232
Deferred tax assets - net	13	7
Other noncurrent assets	1,346	1,329
Total Noncurrent Assets	38,995	37,537
TOTAL ASSETS	P 130,733	P 113,193
 LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans	P 32,505	P 42,744
Liabilities for crude oil and petroleum product importation	24,168	7,529
Trade and other payables	3,854	4,917
Income tax payable	19	10
Current portion of long-term debts - net	1,296	1,296
Total Current Liabilities	61,842	56,496
Non-Current Liabilities		
Long-term debts - net of current portion	17,284	17,596
Deferred tax liabilities - net	1,183	514
Other noncurrent liabilities	1,083	1,052
Total Noncurrent Liabilities	19,550	19,162
Total Liabilities	81,392	75,658
Equity Attributable to Equity Holders of the Parent		
Preferred Stock	100	-
Common Stock	9,375	9,375
Additional Paid-in Capital- Preferred	9,764	-
Retained Earnings	29,936	28,014
Other reserves	(88)	(98)
Total Equity Attributable to Equity Holders of the Parent	49,087	37,291
Noncontrolling Interest		
Total Equity	254	244
TOTAL LIABILITIES AND EQUITY	P 130,733	P 113,193

Certified by:


 MA. CRISTINA M. MENORCA
 VP - Controllers



PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENT OF INCOME
Year-to-Date March 31, 2010 and 2009
(Amounts in Millions of Pesos, Except Per Share Amounts)
(UNAUDITED)

	<u>January to March</u>	
	<u>2010</u>	<u>2009</u>
SALES	P 55,883	P 34,649
COST OF GOODS SOLD	(51,402)	(30,999)
GROSS PROFIT	4,481	3,650
SELLING AND ADMINISTRATIVE EXPENSES	(1,336)	(1,301)
INTEREST EXPENSE	(943)	(1,186)
INTEREST INCOME	58	48
OTHER INCOME (CHARGES)	364	36
INCOME BEFORE INCOME TAX	2,624	1,247
TAX EXPENSE	(692)	(373)
NET INCOME	P 1,932	P 874
Attributable to:		
Equity holders of the parent	P 1,922	P 867
Noncontrolling interest	10	7
	P 1,932	P 874
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT - BASIC AND DILUTED	P 0.21	P 0.09

Certified by:

MA. CRISTINA M. MENORCA
VP - Controllers



PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Year-to-Date March 31, 2010 and 2009
(Amounts in Millions of Pesos)

	January to March	
	2010	2009
NET INCOME	<u>P 1,932</u>	<u>P 874</u>
OTHER COMPREHENSIVE INCOME, NET OF TAX	<u>10</u>	<u>11</u>
TOTAL COMPREHENSIVE INCOME	<u><u>P 1,942</u></u>	<u><u>P 885</u></u>
Attributable to:		
Equity holders of the parent	1,932	878
Noncontrolling Interest	<u>10</u>	<u>7</u>
	<u><u>P 1,942</u></u>	<u><u>P 885</u></u>

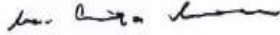
Certified by:


MA. CRISTINA M. MENORCA
VP - Controllers



PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
 Year-to-Date March 31, 2010 and 2009
 (Amounts in Millions of Pesos)

	Preferred Stock	Capital Stock	APIC Preferred	Retained Earnings		Other Reserves	Total	Non- controlling Interest	Total Equity
				Appropriated	Unappropriated				
Balance at January 1, 2010		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
Share Issue	100		9,764				9,864		9,864
Balance at March 31, 2010	<u>P 100</u>	<u>P 9,375</u>	<u>P 9,764</u>	<u>P 15,492</u>	<u>P 14,444</u>	<u>(P 88)</u>	<u>P 49,087</u>	<u>P 254</u>	<u>P 49,341</u>
Balance at January 1, 2009	-	P 9,375	-	P 23,920	(P 144)	(P 473)	P 32,678	P 225	P 32,903
Total Comprehensive Income					867	11	878	7	885
Appropriation for capital projects				(8,428)	8,428		-		-
Balance at March 31, 2009	<u>-</u>	<u>P 9,375</u>	<u>-</u>	<u>P 15,492</u>	<u>P 9,151</u>	<u>(P 462)</u>	<u>P 33,556</u>	<u>P 232</u>	<u>P 33,788</u>


Certified by: 
 MA. CRISTINA M. MENORCA
 VP - Controllers



PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
Year-to-Date March 31, 2010 and 2009
(Amounts in Millions of Pesos)
(UNAUDITED)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 2,624	P 1,247
Adjustments for:		
Interest expense	943	1,182
Depreciation and amortization	854	855
Interest income	(58)	(48)
Net unrealized foreign exchange loss (gain)	(72)	-
Others	18	11
Operating income before working capital changes	4,309	3,247
Changes in operating assets and liabilities	1,932	7,037
Interest paid	(940)	(1,414)
Income taxes paid	(341)	(10)
Interest received	49	63
Net cash provided by operating activities	5,009	8,923
CASH FLOWS FROM INVESTING ACTIVITIES		
(Additions) to:		
Property, plant and equipment	(2,103)	(755)
Decrease (increase) in:		
Other receivables	2,233	(564)
Other noncurrent assets	(22)	11
Reductions from (additions to):		
Available-for-sale investments	(16)	189
Net cash provided by (used in) investing activities	92	(1,119)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of loans	42,836	31,844
Payments of:		
Loans	(53,396)	(45,016)
Cash dividends	-	(2)
Issuance of Preferred Stock	9,864	-
Increase in other noncurrent liabilities	20	34
Net cash used in financing activities	(676)	(13,140)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(22)	10
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,403	(5,326)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,985	12,827
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 17,388	P 7,501

Certified by:


MA. CRISTINA M. MENORCA
VP - Controllers

PETRON CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Amounts in Million Pesos, Except Par Value, Share and Per Share Amounts,
Exchange Rates, and Commodity Volumes)
(Amounts Unaudited, Except Comparative Amounts for December 31, 2009
Statement of Financial Position)

1. Corporate Information

Petron Corporation (the Parent Company or Petron) was incorporated under the laws of the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 15, 1966. Petron is the largest oil refining and marketing company in the Philippines, supplying more than one-third of the country's oil requirements. The Company's vision is to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

Petron operates a refinery in Limay, Bataan, with a rated capacity of 180,000 barrels a day. Petron's International Standards Organization (ISO) 14001 - certified refinery processes crude oil into a full range of petroleum products including liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, industrial fuel oil, solvents, asphalts, mixed xylene and propylene. From the refinery, Petron moves its products mainly by sea to Petron's 31 depots and terminals situated all over the country. Through this nationwide network, Petron supplies fuel oil, diesel, and LPG to various industrial customers. The power sector is Petron's largest customer. Petron also supplies jet fuel at key airports to international and domestic carriers.

Through its 1,504 service stations, Petron retails gasoline, diesel, and kerosene to motorists and public transport operators. Petron also sells its LPG brands "Gasul" to households and other consumers through an extensive dealership network. To broaden its market base and further strengthen its leadership in the LPG business, Petron launched a second LPG brand called "Fiesta Gas" early in 2008.

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

In July 2008, Petron completed the construction of a Fuel Additives Blending facility at the Subic Bay Freeport. This plant, which has started commercial operations in October 2008, serves the needs of Innospec, a leading global fuel additive company, in the Asia-Pacific region.

Petron is expanding its non-fuel businesses which include its convenience store brand "Treats." Petron has partnered with major fast-food chains, coffee shops, and other consumer services to give its customers a one-stop full service experience. Petron is also putting up additional company-owned and company-operated (COCO) service stations in strategic locations. In addition, Micro-Filling Stations (MFS) were built across the country in 2009.

In line with Petron's efforts to increase its presence in the regional market, it exports various petroleum and non-fuel products to Asia-Pacific countries such as South Korea, China, Indonesia, Taiwan, Singapore, Thailand and Cambodia.

Petron's shares of common stock or securities are listed for trading at the Philippine Stock Exchange (PSE). Prior to the entry of the Ashmore Group in July 2008, the Philippine National Oil Company (PNOC) and the Aramco Overseas Company B.V. (AOC) each owned a 40% share in equity of Petron. The remaining 20% was then held by more than 180,000 stockholders. On March 13, 2008, AOC, entered into a share purchase agreement with Ashmore Investment Management Limited and subsequently issued a Transfer Notice to PNOC to signify its intent to sell its 40% equity stake in Petron. PNOC eventually waived its right of first offer to purchase AOC's interest in Petron. A total of 990,979,040 common shares were tendered representing 10.57% of the total outstanding common shares of Petron. Together with the private sale of AOC's 40% interest in Petron, the Ashmore Group, thru its corporate nominee SEA Refinery Holdings B.V. (SEA BV), a company incorporated in The Netherlands, acquired 50.57% of the outstanding common shares in Petron in the latter part of July 2008. SEA BV is a company owned by funds managed by the Ashmore Group.

On October 6, 2008, the PNOC informed SEA BV and Petron of its intent to dispose of its 40% stake in Petron. In December 2008, the 40% interest of PNOC in Petron was finally purchased by SEA Refinery Corporation (SRC), a domestic corporation wholly-owned by SEA BV. In a related development, SEA BV sold a portion of its interest in Petron, equivalent to 10.1% of the issued shares, to SRC. Thus, at the turn of the year, the capital structure of Petron is as follows: SRC - 50.1%; SEA BV - 40.47%; and the general public - 9.43%, making SEA BV's direct and indirect ownership interest in Petron at 90.57%; hence, SEA BV is the Company'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. Under the Option Agreement, it was provided that SMC will have representation in the Petron Board and Management. In the implementation of the Option Agreement between SMC and SEA BV, SMC representatives were elected to the Petron's Board and appointed as senior officers on January 8, 2009. As of March 31, 2010, SMC has not yet exercised its option to buy the shareholdings of SEA BV in Petron.

In its meeting on February 27, 2009, the Petron Board approved the amendment of the Company'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. The Board also approved an increase in the authorized capital stock of the Company from the current P10,000 to P25,000 through the issuance of preferred shares which is intended to raise funds for capital expenditures related to expansion programs, and possibly, to reduce some of the Company's debts. Both items were approved by the stockholders during its meeting on May 12, 2009. However, the approved increase in authorized capital stock to P25,000 was not pursued and instead a reclassification from the unissued authorized common shares to preferred shares was put through.

On October 21, 2009, the Board approved the amendment of Petron's Articles of Incorporation to reclassify a total of 624,895,503 unissued common shares to preferred shares with par value of P 1.00 per share, which also includes a waiver of the stockholders' pre-emptive rights on the issuance of preferred shares. The said amendment and waiver were approved by written assent of the stockholders on January 6, 2010. Features of the preferred shares were approved by the Executive Committee on November 25, 2009.

In November 2009, the requirements for the registration statement of Petron's preferred shares, the Preliminary Prospectus, were submitted to the SEC. The application for listing of preferred shares was also subsequently filed with the PSE. In the meantime, on January 21, 2010, the SEC approved Petron's amendment to its Articles of Incorporation to include preferred shares in the composition of its authorized capital stock. On January 22, 2010, the SEC favorably considered the Final Prospectus and the Issue Management and Underwriting Agreement. The SEC subsequently issued an Order permitting the sale of securities on February 12, 2010. Similarly, the PSE also approved the issuance of 100,000,000 preferred shares, which was offered to the public from February 15 to February 26, 2010. On March 5, 2010, Petron's preferred shares became officially traded at the PSE.

In connection with the inclusion of the generation and sale of electric power in the Company's Primary Purpose, the Company received from the Department of Energy the agency's endorsement dated January 15, 2010 of the corresponding amendment of Petron's Articles of Incorporation. The Company has submitted all the requirements to the SEC in February 2010 and is now awaiting approval of the amendment.

The registered office address of Petron and its Philippine-based subsidiaries (except Petron Freeport Corporation which has its principal offices in the Subic Special Economic Zone) is at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City. The registered office of SEA BV is located at Prins Bernhardplein 200, 1097 JB, Amsterdam, The Netherlands.

2. Basis of Preparation

The condensed consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. They do not include all the information required for full annual financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the audited consolidated financial statements of Petron Corporation and subsidiaries (collectively referred to as "the Company") for the year ended December 31, 2009.

Significant Accounting Policies

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

The same accounting policies and methods of computation as mentioned in the most recent audited financial statements, were followed in the preparation of the consolidated interim financial statements.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated interim financial statements in accordance with PFRS requires the Company to make estimates and assumptions that affect 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 consolidated interim financial statements as they become reasonably determinable.

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.

4. Segment Information

Management identifies segments based on business and geographical locations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

Petron's major sources of revenues are as follows:

- a. Sales from petroleum and other related products which include gasoline, diesel, kerosene, fuel oil, jet fuel and LPG offered to motorists and public transport operators through its service station network around the country as well as to industrial accounts, international and domestic carriers;
- 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 other 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; and,
- e. Exports sales of various petroleum and non-fuel products to Asia-Pacific countries such as Cambodia, South Korea, China, Australia and Indonesia.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of March 31, 2010 and December 31, 2009 and for the three-month ended March 31, 2010 and 2009. Segment assets and liabilities exclude deferred tax assets and deferred tax liabilities.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
<u>Period Ended Mar 31, 2010</u>						
Revenue						
External Sales	P54,781			P 1,102	-	P55,883
Inter-segment Sales	742	P33	P82	-	(P857)	-
Segment results	2,992	33	32	46	42	3,145
Net income	1,841	45	16	43	(13)	1,932
 <u>As of Mar 31, 2010</u>						
Assets and liabilities						
Segment assets	127,177	2,329	2,953	1,472	(3,211)	130,720
Segment liabilities	79,340	605	2,079	704	(2,519)	80,209
Other segment information						
Property, plant and equipment	32,570	-	1	660	2,806	36,037

Depreciation and amortization	834	-	-	20	-	854
Period Ended Mar 31, 2009						
Revenue						
External Sales	P33,860			P789		P34,649
Inter-segment Sales	519	P41	P46	-	(P606)	-
Segment results	2,257	36	32	23	1	2,349
Net income	773	54	11	29	7	874
As of December 31, 2009						
Assets and liabilities						
Segment assets	110,272	1,966	2,840	1,262	(3,154)	113,186
Segment liabilities	74,811	277	1,981	537	(2,462)	75,144
Other segment information						
Property, plant and equipment	31,351	-	-	661	2,772	34,784
Depreciation and amortization	3,505	-	-	81	-	3,586

The following tables present additional information on the petroleum business segment of the Company as of March 31, 2010 and December 31, 2009 and for the three-month periods ended March 31, 2010 and 2009:

	Retail	Lube	Gasul	Industrial	Others	Total
<u>Property, plant and equipment</u>						
As of March 31, 2010	P4,113	P341	P241	P36	P27,839	P32,570
As of December 31, 2009	4,296	427	268	63	26,297	31,351

<u>Capital Expenditures</u>						
As of March 31, 2010	P464	P5	P79	P2	P2,497	P3,047
As of December 31, 2009	575	5	74	11	785	1,450

<u>Revenue</u>						
Period ended Mar 31, 2010	P22,596	P478	P3,786	P23,159	P5,503	P55,522
Period ended Mar 31, 2009	16,423	614	2,703	13,118	1,521	34,379

Geographical Segments

The following table presents revenue information regarding the geographical segments of the Company for the three-month periods ended March 31, 2010 and 2009.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Period ended Mar. 31, 2010						
Revenue						
Local	P51,448	P19	P82	P1,102	(P856)	P51,795
Export/International	4,074	14	-	-	-	4,088
Period ended Mar 31, 2009						
Revenue						
Local	P34,285	P14	P46	P789	(P606)	P34,528
Export/International	94	27	-	-	-	121

5. Fuel Supply Contract

The Company entered into various fuel supply contracts with NPC. Under the agreement, the Company supplies the bunker fuel and diesel fuel oil requirements to NPC, its Independent Power Producers (IPP) and Small Power Utility Groups (SPUG) power plants/barges. For of the first quarter of 2010, the following are the fuel supply contracts granted to Petron:

Bid Date	Date of Award	Contract Duration	DFO (in KL)	IFO (in KL)	DFO (in MP)	IFO (in MP)
Feb 24, '10	Mar 10, '10	Mar. to Dec. '10	28,471	104,385	875,861	2,919,848
April 8, '10	Apr 12 '10	Apr. to June. '10	1,848	-	56,155	-

6. Issuance of Preferred Shares/Amendment in Primary Purpose

On February 27, 2009, the Petron Board approved the amendment of the Company'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. The Board also approved an increase in the authorized capital stock of the Company from the current P10,000 to P25,000 through the issuance of preferred shares which is intended to raise funds for capital expenditures related to expansion programs, and possibly, to reduce some of the Company's debts. Both items were approved by the stockholders during its meeting on May 12, 2009. However, the approved increase in authorized capital stock to P25,000 was not pursued and instead a reclassification from the unissued authorized common shares to preferred shares was put through.

On October 21, 2009, the Board approved the amendment of Petron's Articles of Incorporation to reclassify a total of 624,895,503 unissued common shares to preferred shares with par value of P 1.00 per share, which also includes a waiver of the stockholders' pre-emptive rights on the issuance of preferred shares. The said amendment and waiver were approved by written assent of the stockholders on January 6, 2010. Features of the preferred shares were approved by the Executive Committee on November 25, 2009.

In November 2009, the requirements for the registration statement of Petron's preferred shares, the Preliminary Prospectus, were submitted to the SEC. The application for listing of preferred shares was also subsequently filed with the PSE. In the meantime, on January 21, 2010, the SEC approved Petron's amendment to its Articles of Incorporation to include preferred shares in the composition of its authorized capital stock. On January 22, 2010, the SEC favorably considered the Final Prospectus and the Issue Management and Underwriting Agreement. The SEC subsequently issued an Order permitting the sale of securities on February 12, 2010. Similarly, the PSE also approved the issuance of 100,000,000 preferred shares, which was offered to the public from

February 15 to February 26, 2010. On March 5, 2010, Petron's preferred shares became officially traded at the PSE.

In connection with the inclusion of the generation and sale of electric power in the Company's Primary Purpose, the Company received from the Department of Energy the agency's endorsement dated January 15, 2010 of the corresponding amendment of Petron's Articles of Incorporation. The Company has submitted all the requirements to the SEC in February 2010 and is now awaiting approval of the amendment.

7. Related Party Transactions

Saudi Aramco is the ultimate parent of AOC, the Company's major stockholder until July 29, 2008 while PNOG was also a major stockholder until December 24, 2008. Thus, as of March, 2010, PNOG and Saudi Aramco are no longer considered as related parties of the Company (see Note 1).

Petron and Saudi Aramco have a term contract to purchase and supply, respectively, 90% of Petron'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 Petron for such purchases are shown as part of "Liabilities for Crude Oil and Petroleum Product Importation" account in the consolidated interim statements of financial position.

Petron has long-term lease agreements with PNOG until August 2018 covering certain lots where the Company's refinery and other facilities are located. Lease charges on refinery facilities escalate at 2% a year, subject to increase upon re-appraisal.

8. Earnings per share

Basic and diluted earnings per share amounts for the three-month period ending March 31, 2010 and March 31, 2009 are as follows:

	Period ended Mar 31, 2010	Period ended Mar 31, 2009
Net income after tax attributable to equity holders of the parent	P 1,922	P 867
Weighted average number of shares	9,375,104,497	9,375,104,497
Basic and diluted earnings per share	P 0.21	P 0.09

9. Dividends

There were no dividends declared during the first quarter of 2010.

10. Seasonal Fluctuations

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company

11. Commitments and Contingencies

Unused Letters of Credit and Outstanding Standby Letters of Credit

Petron has approximately unused documentary letters of credit amounting to ₱ 6 as of March 31, 2010 and ₱ 5 as of December 31, 2009. On the other hand, outstanding standby letters of credit for crude importations amounted to ₱ 19,624 and ₱ 10,685 as of March 31, 2010 and December 31, 2009, respectively.

TCC-Related Matters

In 1998, the Company contested before the Court of Tax Appeals (CTA) the collection by the Bureau of Internal Revenue (BIR) of deficiency excise taxes arising from the Company's acceptance and use of Tax Credit Certificates (TCCs) worth ₱659 from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, the Company was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the Court of Appeals where the case is still pending. The Court of Appeals issued a resolution suspending decision on the case until the termination of the DOF investigation on the TCCs assigned to Petron. Petron filed a motion for reconsideration which remains unresolved as of this date. Petron filed a Motion for Re-raffle requesting the re-raffle of the case and its immediate resolution.

In November 1999, BIR issued an assessment against the Company for deficiency excise taxes of ₱284 plus interest and charges for the years 1995 to 1997, as a result of the cancellation by the Department of Finance (DOF) Center ExCom of Tax Debit Memos (TDMs), the related TCCs and their assignments. The Company contested on the grounds that the assessment has no factual and legal bases and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000. On August 23, 2006, the Second Division of the CTA rendered its Decision denying the Company's petition and ordered it to pay the BIR ₱580 representing deficiency excise taxes for 1995 to 1997 plus 20% interest per annum from December 4, 1999. The Company's motion for reconsideration was denied on November 23, 2006. The Company appealed the Division's Decision to the CTA En Banc. On October 30, 2007, the CTA En Banc dismissed the Company's appeal, with two of four justices dissenting. The Company filed its appeal on November 21, 2007 with the Supreme Court. On December 21, 2007, in the substantially identical case of Pilipinas Shell, the Supreme Court decided to nullify the assessment of the deficiency excise taxes and declared as valid Pilipinas Shell's use of Tax Credit Certificates for payment of its tax liabilities. On November 7, 2008, the Supreme Court gave due course to the Company's appeal and directed the Company to file its Memorandum. After the parties filed their respective memoranda, the case is now submitted for resolution.

In May 2002, the BIR issued a collection letter for deficiency taxes of ₱254 plus interest and charges for the years 1995 to 1998, as a result of the cancellation of TCCs and TDMs by the DOF Center ExCom. The Company protested this assessment on the same legal grounds used against the tax assessment issued by the BIR in 1999. The Company elevated the protest to the CTA. The Second Division of the CTA promulgated a decision on May 4, 2007 denying our Petition for Review for lack of merit. The Company was ordered to pay the respondent the reduced amount of ₱601 representing the Company's deficiency excise taxes for the taxable years 1995 to 1998. In addition, the Company was ordered to pay the BIR 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. The Company's Motion for Reconsideration was denied on August 14, 2007. The Company appealed to the CTA En Banc. On December 3, 2008, the CTA En Banc promulgated a decision reversing the unfavorable decision of the CTA 2nd Division. The CIR filed a Petition for Review with the Supreme Court. The Supreme Court directed Petron to file

comment on the petition in the Resolution dated February 4, 2009. Petron's Comment was filed on April 20, 2009.

It should be noted that there are duplications in the TCCs subject of the three assessments. Excluding these duplications, the basic tax involved in all three assessments represented by the face value of the related TCCs is ₱911.

The Company does not believe these tax assessments and legal claims will have an adverse effect on its consolidated financial position and results of operations. The Company's external counsel's analysis of potential results of these cases was subsequently supported by the Decision of the Supreme Court in the case of Pilipinas Shell and in the Decision of the CTA En Banc on December 3, 2008.

Pandacan Terminal Operations

The City Council of Manila, citing concerns of safety, security and health, passed City Ordinance No. 8027 reclassifying the areas occupied by the Oil Terminals of Petron, Shell and Chevron from Industrial to Commercial, making the operation of the Terminals therein unlawful. Simultaneous with efforts to address the concerns of the City Council with the implementation of a scale down program to reduce tankage capacities and joint operation of facilities with Shell and Chevron, the Company filed a petition to annul city Ordinance No. 8027 and enjoin the City Council of Manila, as well as Mayor Joselito Atienza from implementing the same.

Thereafter, the City of Manila approved the Comprehensive Land Use Plan and Zoning Ordinance (CLUPZO) (Ordinance No. 8119) that allows The Company a seven-year grace period. The passage of Ordinance No. 8119 was thought to effectively repeal Manila Ordinance No. 8027. However, on March 7, 2007, the Supreme Court rendered a Decision in the case of SJS Society vs. Atienza, directing the Mayor of Manila to immediately enforce Ordinance No. 8027.

On March 12, 2007, the Company, together with Shell and Chevron, filed an Urgent Motion for Leave to Intervene and Urgent Motion to Admit Motion for Reconsideration of the decision dated March 7, 2007, citing that the Supreme Court failed to consider supervening events, notably (i) the passage of Ordinance No. 8119 which supersedes Ordinance No. 8027, as well as (ii) the writs of injunction from the RTC presenting the implementation of Ordinance No. 8027, the Supreme Court's decision and the enforcement of Ordinance No. 8027 improper. Further, the Company, Shell, and Chevron noted the ill-effects of the sudden closure of the Pandacan Terminals on the entire country.

As a result of the passage of Ordinance No. 8119, on April 23, 2007, upon motion of the Company, Mayor of Manila and the City Council, on the ground that the issues raised in said case has become academic, the RTC dismissed the case filed by the Company questioning Ordinance No. 8027.

On February 13, 2008, the Supreme Court allowed the oil companies' intervention but denied their motion for reconsideration, declaring Manila City Ordinance No. 8027 valid and applicable to the oil terminals at Pandacan. The Court dissolved all existing injunctions against the implementation of the ordinance and directed the oil companies to submit their relocation plans to the Regional Trial Court within 90 days to determine, among others, the reasonableness of the time frame for relocation. On February 28, 2008, the Company, jointly with Chevron and Shell, filed its motion for reconsideration of the Resolution. On May 13, 2008, the three oil companies submitted their Comprehensive Relocation Plans in compliance with the February 13 Resolution of the Supreme Court.

Social Justice Society (SJS), Vladimir Cabigao and Bonifacio Tumbokon filed before the Supreme Court a Motion to stop the City Council of Manila from further hearing the amending ordinance to

Ordinance No. 8027. Petitioners alleged that the proposed amendment is "a brazen and malicious attempt by the City of Manila to thwart the Supreme Court's 7 March 2007 decision and 13 February 2008 resolution on the case". To date, the Supreme Court has not issued any TRO or Order granting the motion filed by the petitioners.

On May 28, 2009, Mayor Alfredo Lim of Manila approved and signed proposed Ordinance 7177 (which became Ordinance No. 8187) repealing Ordinance No. 8027 and 8119 and allowing the continued stay of the oil depots at Pandacan.

On June 1, 2009, SJS officers filed a petition for prohibition against Mayor Lim before the Supreme Court, seeking the nullification of Ordinance 8187. On June 5, 2009, former Manila Mayor Lito Atienza filed his own petition with the Supreme Court seeking to stop the implementation of Ordinance 8187. The Court has ordered the City to file its comment but the Court did not issue a temporary restraining order. The City filed its Comment on August 13, 2009.

In a Resolution dated April 21, 2009, the Supreme Court 1st Division referred to the case to the Court En Banc. However, in its April 28, 2009 Resolution, the Supreme Court En Banc denied the Motion for Reconsideration. On May 19, 2009, SJS filed a Motion to stop the Mayor of the City of Manila from signing Draft Ordinance No. 7177 but this was denied by the Supreme Court in its June 2, 2009 Resolution for being moot and academic. Petron received a Notice of Entry of Judgment from the Clerk of Court stating that the March 7, 2007 decision of the Supreme Court had on February 27, 2008 become final and executory and has therefore been recorded in the Book of Entries of Judgment.

Oil Spill Incident in Guimaras

M/T Solar I sunk 13 nautical miles southwest of Guimaras in rough seas on August 11, 2006 en route to Zamboanga with a cargo of industrial fuel oil.

The Company immediately dispatched its oil spill gear, equipment and oil spill teams upon receiving information of the incident. An aerial and surface assessment was conducted to determine the extent of the spill.

On separate investigations by the Special Task Force on Guimaras by the Department of Justice and the Special Board of Marine Inquiry (SBMI), both found the owners of M/T Solar I, Sunshine Marine Development Corporation (SMDC) liable. The DOJ found no criminal liability on the part of The Company. However, the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the Department of Transportation and Communication (DOTC) and is awaiting its resolution.

The Company implemented a "Cash for Work" program involving residents of the affected areas in the clean-up operations and mobilized its employees to assist in the operations. By the middle of November 2006, the Company had cleaned up all affected shorelines and was affirmed by the inspections made by Taskforce Solar 1 Oil Spill (SOS), a multi-agency group composed of officials from the Local Government Units, Departments of Health, Environment and Natural Resources, Social Welfare and Development, and the Philippine Coast Guard.

The Company worked closely with the provincial government, Department of Welfare and Social Development (DSWD), Department of Agriculture (DA), Technical Education and Skills Development Authority (TESDA), the Philippine Business for Social Progress (PBSP), in developing livelihood programs for the local community. Last November 27, 2006, the Company held a scientific conference in cooperation with the University of the Philippines - Visayas, the National Disaster Coordinating Council (NDCC), the World Wildlife Fund (WWF) and the Guimaras Provincial Government with the objective of developing an integrated assessment and protocol for the rehabilitation of the province. On top of providing alternative livelihood for affected

Guimaras, the company has established programs and facilities aimed at helping improve basic education in the province.

The Company also established a mari-culture park at the Southeast Asian Fisheries Development Center (SEAFDEC) area in the town of Nueva Valencia in August 2007. Several representatives from nearby barangays received hands-on training including the construction of fish cages, stocking of fingerlings, feeding, maintenance work on the fish cages, harvesting and packaging for shipment to ensure that the program is sustainable.

Representatives from the International Oil Pollution Compensation Fund (IOPC) met with the claimants from various affected areas of Guimaras to give an orientation on the requirements of the claim as well as the documents required to be submitted in support of their claims. The Company has filed claim amounting to a total of ₱ 220 against the IOPC by September 2008. A total of ₱ 129 had been paid to the Company. Out of the total outstanding claims from IOPC of ₱ 91, the Company collected ₱ 14 on July 27, 2009 as final settlement.

On separate dates in 2009, individuals claiming to have suffered damages on account of personal injury and death of a child allegedly due to exposure to the oil spill were filed against officers of Petron together with Sunshine Maritime Development Corp., Petron and Capt. Norberto Aguro, Master of M/T Solar I. These cases remain pending before the Provincial Prosecutor of Guimaras. It should be noted, however, that complaints with the same statutory basis has been previously dismissed.

Bataan Real Property Tax Cases

On August 21, 2007, Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring the Company to settle the amount of ₱2,168 allegedly in delinquent real property taxes as of September 30, 2007.

The Company had previously contested the assessments subject of the Notice of Delinquent Real Property Taxes, appealed the same to the Local Board of Assessment Appeals (LBAA), and posted the necessary surety bonds to stop collection of the assessed amount. The Company contested the first assessment covering the Isomerization and Gas Oil Hydrotreater (GOHT3) Facilities of the Company which enjoy, among others, a 5-year real property tax exemption under the Oil Deregulation Law (RA 8479) per Board of Investments (BOI) Certificates of Registration. The second assessment is based on alleged non-declaration by the Company of machineries and equipment in its Bataan refinery for real property tax purposes and/or paid the proper taxes thereon since 1994. The Company questioned this second assessment on the ground among others that: there was no non-declaration; back taxes can be assessed only for a maximum of 10 years, even assuming fraud; erroneous valuations were used; some adjustments like asset retirement and non-use were not considered; some assets were taken up twice in the assessments; and some assets enjoyed real property tax exemptions.

Notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer proceeded with the publication of the Public Auction of the assets of The Company, which she set for October 17, 2007.

The Company exerted all efforts to explain to the Treasurer that the scheduled auction sale was illegal considering the Company's appeal to the LBAA and the posting of the surety bond. Considering the Treasurer's refusal to cancel the auction sale, the Company filed a complaint for injunction on October 8, 2007 before the Regional Trial Court to stop the auction sale. A writ of injunction stopping the holding of the public auction until the case is finally decided 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 before the LBAA by the respondents and the motion was granted by the LBAA on December 10, 2007.

On January 4, 2008, the respondents appealed the RTC's grant of a writ of injunction to the Supreme Court. On February 28, 2008, our counsel was served notice of the Resolution of the Supreme Court directing the Company to file its Comment on the petition of the Provincial Treasurer of Bataan questioning the RTC's issuance of a writ of injunction against the holding of a public auction for alleged delinquency in payment of real property taxes. The Company's comment was filed on March 7, 2008.

Last January 17, 2008, the Company appealed from the LBAA's dismissal of its appeal by filing a Notice of Appeal with the CBAA.

On June 27, 2008, the Supreme Court dismissed the petition filed by Talento on the Order granting the writ of injunction. All five Justices concurred that Talento's appeal was procedurally defective and/or was filed out of time. The Court also faulted the petitioner for disregarding the hierarchy of courts when it went straight to the Supreme Court without going thru the Court of Appeals. More importantly, the Court ruled that the issues raised by the Company against the assessment should be resolved before any auction sale is conducted; that the auction sale will have serious repercussions on the operations of the Company; and that a surety bond may be filed in lieu of payment of the taxes under protest to stop collection. Motions for reconsideration filed by Provincial Treasurer and the League of Provinces of the Philippines (LPP) were denied.

All pending incidents in the RTC case are now deemed submitted for resolution.

12. Financial Risk Management Objectives and Policies

Foreign Exchange Risk

The Company's functional currency is the Philippine peso, which is the denomination of the bulk of the Company's revenues. The Company's exposures to foreign exchange risk arise mainly from US dollar-denominated sales as well as purchases principally of crude oil and petroleum products. As a result of this, the Company 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 Company pursues a policy of hedging foreign exchange risk by purchasing currency forwards or by substituting U.S. 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 Company 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.

The following is the summation of the Company's foreign currency denominated financial assets and liabilities as of March 31, 2010, March 31, 2009 and December 31, 2009:

	Mar 31, 2010	Mar 31, 2009	Dec. 31, 2009
	In USD	In USD	In USD
Financial assets	227	81	250
Financial liabilities	(489)	(175)	(128)
Net foreign exposure	(262)	(94)	122

The exchange rates used to restate the US dollar denominated financial assets and liabilities stated above are ₱45.17 (Mar. 31, 2010), ₱48.33 (Mar. 31, 2009) and ₱46.20 (Dec. 31, 2009), respectively.

The succeeding table shows the effect of the percentage changes in the Philippine peso to US dollar exchange rate on the Company's income before tax. These percentages have been determined based on the market volatility in exchange rates in the previous three months for the quarters ended March 31, 2010, March 31, 2009, and for full year 2009. The sensitivity analysis is based on the Company's foreign currency financial instruments held at each statement of financial position date, with effect estimated from beginning of the respective periods.

Had the Philippine peso strengthened or weakened against the US dollar, then these would have the following impact:

	Mar 31, 2010	Mar 31, 2009	Dec. 31, 2009
Increase/Decrease in exchange rates	5.55%	6.80%	12.72%
Increase/Decrease in pre-tax income	₱656	₱309	(₱717)

Interest Rate Risk

The Company's exposure to interest rate risk is mainly related to its cash and cash equivalents and debt instruments. Currently, the Company has achieved a balanced mix of cash balances with various deposit rates and fixed and floating rates on its various debts.

Future hedging decisions for floating deposit/interest rates will continue to be guided by an assessment of the overall deposit and interest rate risk profiles of the Parent Company considering the net effect of possible deposit and interest rate movements.

The succeeding table illustrates the sensitivity of income before tax for the periods, given increases/decreases in deposit rates and interest rates for Philippine peso loans and US dollar loans, all of which at 95% level of confidence, with effect from the beginning of the said periods. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. The calculations are based on the Company's financial instruments held at each of those statements of financial position dates. All other variables are held constant.

Effect of changes in rates on Philippine peso and US dollar denominated loans and cash balances with floating interest/deposit rates:

	Mar 31, 2010		Mar 31, 2009		Dec. 31, 2009	
	PHP	USD	PHP	USD	PHP	USD
Increase/decrease interest rates for deposits	(12.23%)	(5.02%)	(30.69%)	(11.14%)	(44.35%)	(12.80%)
Increase/decrease interest rates for short term loans	9.33%	-	18.46%	11.99%	33.17%	-
Increase/decrease interest rates for long term loans	3.06%	-	27.27%	-	35.06%	-
Increase/decrease in pretax income	₱105	(₱2)	₱557	(₱6)	₱723	(₱13)

The following table sets out the carrying amount of the Company's financial instruments exposed to interest rate risk:

	Mar 31, 2010	Mar 31, 2009	Dec. 31, 2009
Cash in bank and cash equivalent	P15,136		P9,884
Short-term loans	32,505	P4,952	42,744
Long-term loans	1,167	41,136	1,333
		1,833	

Sensitivity to interest rates varies during the year considering the volume of cash and loan transactions. The analysis above is considered to be a representative of the Company's interest rate risk.

Credit Risk

In effectively managing credit risk, the Company regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Company credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by Marketing and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

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

	Mar 31, 2010	Mar 31, 2009
Cash in bank and cash equivalents	P15,136	P4,952
Receivables	27,543	18,529
Total	P42,679	P23,481

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

In monitoring trade receivables and credit lines, the Company 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 Company also requires collateral as security for a credit facility to mitigate credit risk in trade receivables. Among the collaterals held are real estate mortgages, bank guarantees, letters of credit and cash bonds. These securities may only be called on or applied upon default of customers.

Credit Risk Concentration. The Company's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade receivable assets is its carrying amount without considering collaterals or credit enhancements, if any. The Company has no significant concentration of credit risk since the Company deals with a large number of

homogenous trade customers. The Company does it execute any credit guarantee in favor of any counterparty.

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

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

The Company is exposed to the possibility that adverse changes in the business environment and/or its operations could result to substantially higher working capital requirements and consequently, a difficulty in financing additional working capital.

The Company manages liquidity risk by keenly monitoring its cash position as well as maintaining a pool of credit lines from financial institutions that exceeds projected financing requirements for working capital. The Company, likewise, regularly evaluates other financing instruments and arrangements to broaden the Company's range of sources of financing.

Commodity Price Risk

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

Other Market Price Risk

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



Petron Corporation and Subsidiaries
Receivables
March 31, 2010
(Amounts in Millions)

Breakdown:

Accounts Receivable - Trade	11,184
Accounts Receivable - Non-Trade	16,359
Total Accounts Receivable	<u>27,543</u>

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1-30 days	9,453
	31-60 days	2,469
	61-90 days	164
	Over 90 days	<u>(124)</u>
Total		11,962
Allowance for doubtful accounts		<u>778</u>
Accounts Receivable - Trade		<u>11,184</u>

Interim Financial Report as of March 31, 2010

Management Discussion and Analysis of Financial Condition and Results of Operations

Operating Revenues and Expenses

Financial Highlights- January to March 31, 2010			
(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	4,363	3,240	35
Sales Volume (MB)	11,640	9,785	19
Earnings per Share	0.20	.09	122
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 35% from the same quarter a year ago.

Earnings per share also moved up by 122% to **₱ 0.20** 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 & 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 & 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%).

Capital Resources and Liquidity

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

The Company's **cash flow from operating activities** declined by 44%. Higher cash earnings were fully negated by the rise in working capital requirements.

In Million Pesos	March 31, 2010	March 31, 2009	Change
Operating Inflows	5,009	8,923	(3,914)
Investing In/(Out)flows	92	(1,119)	1,211
Financing Outflows	(676)	(13,140)	12,464

Discussion of the Company's and its majority owned subsidiaries' top five (5) key performance indicators

Ratio	March 31, 2010	December 31, 2009
Current Ratio	1.5	1.3
Debt Equity Ratio	1.6	2.0
Return on Equity (%)	17.8	12.1
Debt Service Coverage	4.7	4.2
Tangible Net worth	₱ 49.3Bn	₱ 37.5Bn

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 is, the greater the "cushion" between current obligations and a company's ability to pay them.

Debt 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 shareholders equity found on the balance sheet. 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: The sum of free cash flows and available closing cash balance divided by projected debt service. This ratio shows the cash flow available to pay for debts 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)

Philippine GDP expanded by a mere 0.9% in FY 2009, as the country's economy suffered from the ill-effects of the global economic crisis. Although this is significantly lower than the 2008 growth of 3.6%, the country managed to avoid an economic recession which other countries succumbed to. Sustained remittances, stable peso, lower prices and interest rates, and higher government and personal consumption prevented the economy from slipping to a recession. This year, the economy is expected to bounce back along with the recovery of the global economy. Election spending, trade and industry output recovery, sustained OFW remittance growth, benign inflation, and strong personal and government consumption will fuel a healthier economy.

91-Day Treasury Bill/Philippine Dealing System Treasury Reference(PDST-F) Rates

First quarter 91-day T-bill rates stood at an average of 3.9%, lower than 2009's 4.9% average. Interest rates in 2010 were kept low as liquidity in the financial markets remained sufficient. Subdued inflation also allowed the Bangko Sentral ng Pilipinas (BSP) to maintain its interest rates at record low. Since December 2008, BSP has cut its policy rates by a total of 200 basis points to 4% for overnight borrowing rate and 6% for overnight lending rate and this has been maintained up to now.

The average three-month PDST-F rate for the first quarter of 2010 stood at 4.077%, a little lower than 2009's 4.4116% FY average. Despite inflation pressures that ended this March at 4.4%, interest rate remained low due to strong liquidity. Current outlook is that inflation rate will rise and peak at 6% between June and July 2010. Anticipate possible interest rate hike of 5 to 10 bps as a result of cut back on economic stimulus measures. Nevertheless, upward pressures on yields can still be tempered by strong market liquidity.

Peso - US dollar Exchange Rate

The local currency heavily appreciated during the first quarter. From 2009 average of P 47.6/US\$, the peso gained 3.4% to average P46/\$ in the first quarter, and is currently hovering at P 44/US\$ level. The strong growth of OFW remittances, heavy rebound of exports, and the US dollar's weakness contributed to the peso's appreciation.

Inflation

Inflation averaged 4.3% in the first quarter, up from the 2009's 3.2% average. Uptick in prices of commodities like fuels, light, and water, and services contributed to the rise in inflation. Although prices went up, inflation remained manageable and stayed within the target inflation of the government of 3.5-5.5% in 2010.

Dubai Price

Dubai crude averaged US\$76/bbl in the first three months of 2010, sustaining the level achieved in last quarter of 2009, as Dubai gradually recovered from a US\$44/bbl level in January 2009. The uptrend of crude prices was supported by optimism arising from signs of economic recovery. Top oil consumers bounced back with China growing by 11.9% in 1Q, and the US expanding by 5.6% in the 4Q 2009. Outlook for world oil demand has also improved with agencies like OPEC, Energy Information Administration, and International Energy Agency revising their 2010 forecasts upward. The weakness of the dollar also diverted investment funds to the oil market.

Industry Oil Demand

Data from DOE shows that as of February 2010, industry oil demand surged by 10% from 275.3MBD in the first two months last year to 303.1 MBD in the Jan-Feb this year. Election spending and economic rebound supported fuel consumption. Sustained OFW remittances, strong vehicle sales, rebound in the trade and manufacturing sector during the period boosted demand for oil.

Tight Industry Competition

Competition remains stiff with the new players implementing different marketing strategies and aggressively expanding. As of the first two months of the year, the new players have collectively cornered around 19.3% of the total oil market. Collectively, the new players are leading the LPG market segment with 50% market share.

Updates on Capital Program

The 2010 capital program endorsed last December 2009 is ₱ 15.1 billion. Of this amount ₱ 13.9 billion has already been approved and includes the refinery's power plant, service station and non-fuels business expansion, additional tankage at the depots and at the refinery, maintenance projects and the relocation of the Makati head office to San Miguel Head Office Compound. The remaining projects totaling ₱ 1.2 billion will be further evaluated within the year.

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 Trade 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 Governmental Regulations

ASEAN Trade in Goods Agreement (ATIGA). The ASEAN Trade in Goods Agreement (ATIGA) which eliminates duties on crude and products traded between six member countries (Brunei, Indonesia, Malaysia, Philippines, Thailand and Singapore) has been approved and implemented effective January 1, 2010. Reduction in tariff for the other ASEAN member countries (Laos, Cambodia, Myanmar and Vietnam) will commence in 2015. The elimination of import duties will benefit the oil importers but would hurt the refiners. Since the refiners import crude mainly from the Middle East, they would still be subject to 3% duty while importers whose main source is Singapore benefit from duty free imports. The Deregulation Law, however, which seeks to maintain a level playing field, mandates uniform tariff for crude and petroleum products. The Tariff Commission is still evaluating the petition of the refiners to reduce crude and finished products tariff to zero, regardless of source.

Biofuels Act of 2006. Aiming to reduce the dependence of transport sector on imported fuel, the biofuels law signed in January 2007 mandates that ethanol comprise 5% of total gasoline sales by 2009. Oil companies are allowed to blend the different premium gasoline grades with 10% ethanol to be sold in selected areas to achieve the 5% of total gasoline volume requirement. The requirement to sell ethanol blended gasoline started February 9, 2009. For diesel engines, biodiesel blend increases from the current 1% to 2% last February 10, 2009.

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

TCC-Related Matters

In 1998, the Company contested before the Court of Tax Appeals (CTA) the collection by the Bureau of Internal Revenue (BIR) of deficiency excise taxes arising from the Company's acceptance and use of Tax Credit Certificates (TCCs) worth P659 million from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, the Company was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the Court of Appeals where the case is still pending. The Court of Appeals issued a resolution suspending decision on the case until the termination of the DOF investigation on the TCCs assigned to Petron. Petron filed a motion for reconsideration which remains unresolved as of this date. Petron filed a Motion for Re-raffle requesting the re-raffle of the case and its immediate resolution.

In November 1999, BIR issued an assessment against the Company for deficiency excise taxes of P284 million plus interest and charges for the years 1995 to 1997, as a result of the cancellation by the Department of Finance (DOF) Center ExCom of Tax Debit Memos (TDMs), the related TCCs and their assignments. The Company contested on the grounds that the assessment has no factual and legal bases and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000. On August 23, 2006, the Second Division of the CTA rendered its Decision denying the Company's petition and ordered it to pay the BIR P580 million representing deficiency excise taxes for 1995 to 1997 plus 20% interest per annum from December 4, 1999. The Company's motion for reconsideration was denied on November 23, 2006. The Company appealed the Division's Decision to the CTA En Banc. On October 30, 2007, the CTA En Banc dismissed the Company's appeal, with two of four justices dissenting. The Company filed its appeal on November 21, 2007 with the Supreme Court. On December 21, 2007, in the substantially identical case of Pilipinas Shell, the Supreme Court decided to nullify the assessment of the deficiency excise taxes and declared as valid Pilipinas Shell's use of Tax Credit Certificates for payment of its tax liabilities. On November 7, 2008, the Supreme Court gave due course to the Company's appeal and directed the Company to file its Memorandum. After the parties filed their respective memoranda, the case is now submitted for resolution.

In May 2002, the BIR issued a collection letter for deficiency taxes of P254 million plus interest and charges for the years 1995 to 1998, as a result of the cancellation of TCCs and TDMs by the DOF Center ExCom. The Company protested this assessment on the same legal grounds used against the tax assessment issued by the BIR in 1999. The Company elevated the protest to the CTA. The Second Division of the CTA promulgated a decision on May 4, 2007 denying our Petition for Review for lack of merit. The Company was ordered to pay the respondent the reduced amount of P601 million representing the Company's deficiency excise taxes for the taxable years 1995 to 1998. In addition, the Company was ordered to pay the BIR 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. The Company's Motion for Reconsideration was denied on August 14, 2007. The Company appealed to the CTA En Banc. On December 3, 2008, the CTA En Banc promulgated a decision reversing the unfavorable decision of the CTA 2nd Division. The CIR filed a Petition for Review with the Supreme Court. The Supreme Court directed Petron to file comment on the petition in the Resolution dated February 4, 2009. Petron's Comment was filed on April 20, 2009.

It should be noted that there are duplications in the TCCs subject of the three assessments. Excluding these duplications, the basic tax involved in all three assessments represented by the face value of the related TCCs is P911 million.

The Company does not believe these tax assessments and legal claims will have an adverse effect on its consolidated financial position and results of operations. The Company's external counsel's analysis of potential results of these cases was subsequently supported by the Decision of the Supreme Court in the case of Pilipinas Shell and in the Decision of the CTA En Banc on December 3, 2008.

Pandacan Terminal Operations

The City Council of Manila, citing concerns of safety, security and health, passed City Ordinance No. 8027 reclassifying the areas occupied by the Oil Terminals of Petron, Shell and Chevron from Industrial to Commercial, making the operation of the Terminals therein unlawful. Simultaneous with efforts to address the concerns of the City Council with the implementation of a scale down program to reduce tankage capacities and joint operation of facilities with Shell and Chevron, the Company filed a petition to annul city Ordinance No. 8027 and enjoin the City Council of Manila, as well as Mayor Joselito Atienza from implementing the same.

Thereafter, the City of Manila approved the Comprehensive Land Use Plan and Zoning Ordinance (CLUPZO) (Ordinance No. 8119) that allows The Company a seven-year grace period. The passage of Ordinance No. 8119 was thought to effectively repeal Manila Ordinance No. 8027. However, on March 7, 2007, the Supreme Court rendered a Decision in the case of SJS Society vs. Atienza, directing the Mayor of Manila to immediately enforce Ordinance No. 8027.

On March 12, 2007, the Company, together with Shell and Chevron, filed an Urgent Motion for Leave to Intervene and Urgent Motion to Admit Motion for Reconsideration of the decision dated March 7, 2007, citing that the Supreme Court failed to consider supervening events, notably (i) the passage of Ordinance No. 8119 which supersedes Ordinance No. 8027, as well as (ii) the writs of injunction from the RTC presenting the implementation of Ordinance No. 8027, the Supreme Court's decision and the enforcement of Ordinance No. 8027 improper. Further, the Company, Shell, and Chevron noted the ill-effects of the sudden closure of the Pandacan Terminals on the entire country.

As a result of the passage of Ordinance No. 8119, on April 23, 2007, upon motion of the Company, Mayor of Manila and the City Council, on the ground that the issues raised in said case has become academic; the RTC dismissed the case filed by the Company questioning Ordinance No. 8027.

On February 13, 2008, the Supreme Court allowed the oil companies' intervention but denied their motion for reconsideration, declaring Manila City Ordinance No. 8027 valid and applicable to the oil terminals at Pandacan. The Court dissolved all existing injunctions against the implementation of the ordinance and directed the oil companies to submit their relocation plans to the Regional Trial Court within 90 days to determine, among others, the reasonableness of the time frame for relocation. On February 28, 2008, the Company, jointly with Chevron and Shell, filed its motion for reconsideration of the Resolution. On May 13, 2008, the three oil companies submitted their Comprehensive Relocation Plans in compliance with the February 13 Resolution of the Supreme Court.

Social Justice Society (SJS), Vladimir Cabigao and Bonifacio Tumbokon filed before the Supreme Court a Motion to stop the City Council of Manila from further hearing the amending ordinance to Ordinance No. 8027. Petitioners alleged that the proposed amendment is "a brazen and malicious attempt by the City of Manila to thwart the Supreme Court's 7 March 2007 decision and 13 February 2008 resolution on the case". To date, the Supreme Court has not issued any TRO or Order granting the motion filed by the petitioners.

On May 28, 2009, Mayor Alfredo Lim of Manila approved and signed proposed Ordinance 7177 (which became Ordinance No. 8187) repealing Ordinance No. 8027 and 8119 and allowing the continued stay of the oil depots at Pandacan.

On June 1, 2009, SJS officers filed a petition for prohibition against Mayor Lim before the Supreme Court, seeking the nullification of Ordinance 8187. On June 5, 2009, former Manila Mayor Lito Atienza filed his own petition with the Supreme Court seeking to stop the implementation of Ordinance 8187. The Court has ordered the City to file its comment but the Court did not issue a temporary restraining order. The City filed its Comment on August 13, 2009.

In a Resolution dated April 21, 2009, the Supreme Court 1st Division referred to the case En Banc. However, in its April 28, 2009 Resolution, the Supreme Court En Banc denied the Motion for Reconsideration. On May 19, 2009, SJS filed a Motion to stop the Mayor of the City of Manila from signing Draft Ordinance No. 7177 but this was denied by the Supreme Court in its June 2, 2009 Resolution for being moot and academic. Petron received a Notice of Entry of Judgment from the Clerk of Court stating that the March 7, 2007 decision of the Supreme Court had on February 27, 2008 become final and executory and has therefore been recorded in the Book of Entries of Judgment.

Oil Spill Incident in Guimaras

M/T Solar I sunk 13 nautical miles southwest of Guimaras in rough seas on August 11, 2006 en route to Zamboanga with a cargo of industrial fuel oil.

The Company immediately dispatched its oil spill gear, equipment and oil spill teams upon receiving information of the incident. An aerial and surface assessment was conducted to determine the extent of the spill.

On separate investigations by the Special Task Force on Guimaras by the Department of Justice and the Special Board of Marine Inquiry (SBMI), both found the owners of M/T Solar I, Sunshine Marine Development Corporation (SMDC) liable. The DOJ found no criminal liability on the part of The Company. However, the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the Department of Transportation and Communication (DOTC) and is awaiting its resolution.

The Company implemented a “Cash for Work” program involving residents of the affected areas in the clean-up operations and mobilized its employees to assist in the operations. By the middle of November 2006, the Company had cleaned up all affected shorelines and was affirmed by the inspections made by Taskforce Solar 1 Oil Spill (SOS), a multi-agency group composed of officials from the Local Government Units, Departments of Health, Environment and Natural Resources, Social Welfare and Development, and the Philippine Coast Guard.

The Company worked closely with the provincial government, Department of Welfare and Social Development (DSWD), Department of Agriculture (DA), Technical Education and Skills Development Authority (TESDA), the Philippine Business for Social Progress (PBSP), in developing livelihood programs for the local community. Last November 27, 2006, the Company held a scientific conference in cooperation with the University of the Philippines - Visayas, the National Disaster Coordinating Council (NDCC), the World Wildlife Fund (WWF) and the Guimaras Provincial Government with the objective of developing an integrated assessment and protocol for the rehabilitation of the province. On top of providing alternative livelihood for affected Guimarasnons, the company has established programs and facilities aimed at helping improve basic education in the province.

The Company also established a mari-culture park at the Southeast Asian Fisheries Development Center (SEAFDEC) area in the town of Nueva Valencia in August 2007. Several representatives from nearby barangays received hands-on training including the construction of fish cages, stocking of fingerlings, feeding, maintenance work on the fish cages, harvesting and packaging for shipment to ensure that the program is sustainable.

Representatives from the International Oil Pollution Compensation Fund (IOPC) met with the claimants from various affected areas of Guimaras to give an orientation on the requirements of the claim as well as the documents required to be submitted in support of their claims. The Company has filed claim amounting to a total of ₱ 220 million against the IOPC by September 2008. A total of ₱ 129 million had been paid to the Company. Out of the total outstanding claims from IOPC of ₱ 91 million, the Company collected ₱ 14 million on July 27, 2009 as final settlement.

On separate dates in 2009, individuals claiming to have suffered damages on account of personal injury and death of a child allegedly due to exposure to the oil spill were filed against officers of Petron together with Sunshine Maritime Development Corp., Petron and Capt. Norberto Aguro, Master of M/T Solar I. These cases remain pending before the Provincial Prosecutor of Guimaras. It should be noted, however, that complaints with the same statutory basis has been previously dismissed.

Bataan Real Property Tax Cases

On August 21, 2007, Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring the Company to settle the amount of P2,168 million allegedly in delinquent real property taxes as of September 30, 2007.

The Company had previously contested the assessments subject of the Notice of Delinquent Real Property Taxes, appealed the same to the Local Board of Assessment Appeals (LBAA), and posted the necessary surety bonds to stop collection of the assessed amount. The Company contested the first assessment covering the Isomerization and Gas Oil Hydrotreater (GOHT3) Facilities of the Company which enjoy, among others, a 5-year real property tax exemption under the Oil Deregulation Law (RA 8479) per Board of Investments (BOI) Certificates of Registration. The second assessment is based on alleged non-declaration by the Company of machineries and equipment in its Bataan refinery for real property tax purposes and/or paid the proper taxes thereon since 1994. The Company questioned this second assessment on the ground among others that: there was no non-declaration; back taxes can be assessed only for a maximum of 10 years, even assuming fraud; erroneous valuations were used; some adjustments like asset retirement and non-use were not considered; some assets were taken up twice in the assessments; and some assets enjoyed real property tax exemptions

Notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer proceeded with the publication of the Public Auction of the assets of The Company, which she set for October 17, 2007.

The Company exerted all efforts to explain to the Treasurer that the scheduled auction sale was illegal considering the Company's appeal to the LBAA and the posting of the surety bond. Considering the Treasurer's refusal to cancel the auction sale, the Company filed a complaint for injunction on October 8, 2007 before the Regional Trial Court to stop the auction sale. A writ of injunction stopping the holding of the public auction until the case is finally decided 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 before the LBAA by the respondents and the motion was granted by the LBAA on December 10, 2007.

On January 4, 2008, the respondents appealed the RTC's grant of a writ of injunction to the Supreme Court. On February 28, 2008, our counsel was served notice of the Resolution of the Supreme Court directing the Company to file its Comment on the petition of the Provincial Treasurer of Bataan questioning the RTC's issuance of a writ of injunction against the holding of a public auction for alleged delinquency in payment of real property taxes. The Company's comment was filed on March 7, 2008.

Last January 17, 2008, the Company appealed from the LBAA's dismissal of its appeal by filing a Notice of Appeal with the CBAA.

On June 27, 2008, the Supreme Court dismissed the petition filed by Talento on the Order granting the writ of injunction. All five Justices concurred that Talento's appeal was procedurally defective and/or was filed out of time. The Court also faulted the petitioner for disregarding the hierarchy of courts when it went straight to the Supreme Court without going thru the Court of Appeals. More importantly, the Court ruled that the issues raised by the Company against the assessment should be resolved before

any auction sale is conducted; that the auction sale will have serious repercussions on the operations of the Company; and that a surety bond may be filed in lieu of payment of the taxes under protest to stop collection. Motions for reconsideration filed by Provincial Treasurer and the League of Provinces of the Philippines (LPP) were denied.

All pending incidents in the RTC case are now deemed submitted for resolution.

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.

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: May 13, 2010

Principal Financial/Accounting Officer/Controller

Signature and Title



MA. CRISTINA M. MENORCA
Vice President - Controllers

Date: May 13, 2010