C O V E R S H E E T

3 1 1 7 1

S. E. C. Registration Number

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

(Company's Full Name)

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

A V E. M A N D A L U Y O N G C I T Y

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

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

1 2 - 1 0	SEC Form 17-Q	0 7 1 2
Month Day	FORM TYPE	Month Day
Fiscal Year		Annual Meeting

N/A

Secondary License Type, if Applicable

	N/A
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

		N/A
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

Fiscal Numer	LCU
Document I. D.	Cashier

S T A M P S

PETRON

PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2010
(With Comparative Figures for the year ended December 31, 2009)
(Amounts in Millions of Pesos)

	Sept 30, 2010 Unaudited	Dec 31, 2009 Audited
ASSETS		
Current Assets		
Cash and cash equivalents	P 16,050	P 12,985
Financial assets at fair value through profit or loss	168	169
Available-for-sale investments	203	170
Trade and Other Receivables - net	25,247	29,696
Inventories - net	32,123	28,169
Other current assets	3,160	4,467
Total Current Assets	76,951	75,656
Non-Current Assets		
Available-for-sale investments	1,001	1,185
Property, plant and equipment- net	34,987	34,784
Investment properties - net	960	232
Deferred tax assets - net	15	7
Other noncurrent assets	24,428	1,329
Total Noncurrent Assets	61,392	37,537
TOTAL ASSETS	P 138,343	P 113,193
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans	P 31,043	P 42,744
Liabilities for crude oil and petroleum product importation	14,693	7,529
Trade and other payables	5,046	4,917
Income tax payable	14	10
Current portion of long-term debts - net	9,208	1,296
Total Current Liabilities	60,005	56,496
Non-Current Liabilities		
Long-term debts - net of current portion	23,911	17,596
Deferred tax liabilities - net	1,892	514
Other noncurrent liabilities	1,161	1,052
Total Noncurrent Liabilities	26,964	19,162
Total Liabilities	86,969	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	31,920	28,014
Other reserves	(57)	(98)
Total Equity Attributable to Equity Holders of the Parent	51,102	37,291
Noncontrolling Interest	272	244
Total Equity	51,374	37,535
TOTAL LIABILITIES AND EQUITY	P 138,343	P 113,193

Certified by:

EFREN P. GABRILLO
Assistant Vice President - Controllers

PETRON

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Year-to-Date September 30, 2010 and 2009
(Amounts in Millions of Pesos, Except Per Share Amounts)
(UNAUDITED)

	July to September		January to September	
	2010	2009	2010	2009
SALES	P 54,444	P 46,956	P 169,798	P 123,635
COST OF GOODS SOLD	(50,612)	(42,214)	(156,479)	(111,620)
GROSS PROFIT	3,832	4,742	13,319	12,015
SELLING AND ADMINISTRATIVE EXPENSES	(1,575)	(1,350)	(4,414)	(4,116)
INTEREST EXPENSE	(1,051)	(1,018)	(2,922)	(3,284)
INTEREST INCOME	257	36	419	147
OTHER INCOME (CHARGES)	925	(313)	669	(125)
INCOME BEFORE INCOME TAX	2,388	2,097	7,070	4,638
TAX EXPENSE	(581)	(539)	(1,724)	(1,272)
NET INCOME	P 1,807	P 1,558	P 5,347	P 3,366
Attributable to:				
Equity holders of the parent	P 1,798	P 1,554	P 5,320	P 3,347
Noncontrolling interest	9	4	27	19
	P 1,807	P 1,558	P 5,347	P 3,366
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT - BASIC AND DILUTED	P 0.19	P 0.17	P 0.57	P 0.36

Certified by:

EFREN P. GABRILLO
Assistant Vice President - Controllers

PETRON

PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Year-to-Date September 30, 2010 and 2009
(Amounts in Millions of Pesos)
(UNAUDITED)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 7,070	P 4,638
Adjustments for:		
Depreciation and amortization	2,485	2,620
Interest expense	2,922	3,284
Interest income	(419)	(147)
Net unrealized foreign exchange loss (gain)	(873)	(55)
Others	(3)	(24)
Operating income before working capital changes	11,182	10,315
Changes in operating assets and liabilities	11,972	6,341
Interest paid	(2,805)	(3,368)
Income taxes paid	(73)	(72)
Interest received	415	158
Net cash provided by operating activities	20,691	13,373
CASH FLOWS FROM INVESTING ACTIVITIES		
Net disposals of (Additions to):		
Property, plant and equipment	(2,659)	(1,392)
Investment Properties	(760)	1
Decrease (increase) in:		
Other receivables	(2,479)	(8,226)
Other noncurrent assets	352	217
Reductions from (additions to):		
Available-for-sale investments	191	(664)
Investments	(24,145)	(0)
Net cash provided by (used in) investing activities	(29,500)	(10,065)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of loans	145,539	132,665
Payments of:		
Loans	(142,179)	(132,117)
Cash dividends	(1,365)	(4)
Issuance of Preferred Stock	9,864	-
Increase in other noncurrent liabilities	75	78
Net cash used in financing activities	11,935	622
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(61)	(11)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,065	3,919
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,985	12,827
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 16,050	P 16,746

Certified by:

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Assistant Vice President - Controllers

PETRON

PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Year-to-Date September 30, 2010 and 2009
(Amounts in Millions of Pesos)

	Preferred Stock	Capital Stock	APIC Preferred	Retained Earnings Appropriated	Retained Earnings Unappropriated	Other Reserves	Total	Non-controlling Interest	Total Equity
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					5,320	41	5,361	28	5,389
Cash Dividends					(1,414)		(1,414)		(1,414)
Share Issue	100		9,764				9,864		9,864
Balance at September 30, 2010	P 100	P 9,375	P 9,764	P 15,492	P 16,428	(P 57)	P 51,103	P 272	P 51,374
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					3,347	29	3,376	19	3,395
Reversal of Appropriation for capital projects				(8,428)	8,428		-		-
Prior Period Adjustment					8		8		8
Balance at September 30, 2009	-	P 9,375	-	P 15,492	P 11,639	(P 444)	P 36,062	P 244	P 36,306

Certified by:

EFREN P. GABRILLO
Assistant Vice President - Controllers

PETRON

PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Year-to-Date September 30, 2010 and 2009
(Amounts in Millions of Pesos)

	January to September	
	2010	2009
NET INCOME	P 5,347	P 3,366
OTHER COMPREHENSIVE INCOME, NET OF TAX	41	29
TOTAL COMPREHENSIVE INCOME	P 5,388	P 3,395
Attributable to:		
Equity holders of the parent	5,361	3,376
Noncontrolling Interest	27	19
	P 5,388	P 3,395

Certified by:

EFREN P. GABRILLO
Assistant Vice President - Controllers

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Amounts in Millions of Pesos, Except Par Value, Number of Shares and Per Share Amounts, Exchange Rates, and Commodity Volumes)
(Amounts Unaudited, Except Comparative Amounts for December 31, 2009 Condensed Consolidated Interim Statement of Financial Position)

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. 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 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 more than 1,600 service stations, Petron remains the leader in all the major segments of the market. Petron retails gasoline, diesel, and kerosene to motorists and public transport operators. Petron also sells its LPG brands "Gasul" and "Fiesta" to households and other industrial 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" 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 Limited, 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 companies to give its customers a one-stop full service experience. Petron continuously puts up additional service stations in strategic locations. In addition, Micro-Filling Stations (MFS) are being built across the country starting 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, Taiwan, Singapore, Cambodia, Japan and Malaysia.

Petron's shares of stock are listed for trading at the Philippine Stock Exchange (PSE). Prior to the entry of Ashmore Investment Management Limited (Ashmore), the Philippine National Oil Company (PNOC) and the Aramco Overseas Company B.V. (AOC) each owned a 40% share of the Parent Company's equity. 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 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 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 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. Under the Option Agreement, it was provided that SMC will have representation in the Petron Board of Directors ("Board") and Management. In the implementation of the Option Agreement between SMC and SEA BV, SMC representatives were elected to the Petron Board and appointed as senior officers on January 8 and February 27, 2009.

In the February 27, 2009 Board meeting, the Board 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. The Board also approved an increase of the Parent Company's authorized capital stock from the current ₱10,000 to ₱25,000 through the issuance of preferred shares aimed at raising funds for capital expenditures related to expansion programs as well as to possibly reduce some of Petron's debts. Both items, including a waiver to subscribe to the preferred shares to be issued as a result of the increase in authorized capital stock, were approved by the stockholders on May 12, 2009 at the annual stockholders meeting.

On October 21, 2009, the 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 a par value of ₱1.00 per share, which also includes a waiver of the stockholders' pre-emptive rights on the issuance of preferred shares. Features of said preferred shares were approved by the Executive Committee on November 25, 2009.

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

On January 21, 2010, the SEC approved Petron's amendment to its Articles of Incorporation to include preferred shares in the composition of its authorized capital stock. On January 22, 2010, the SEC favorably considered the Final Prospectus and the Issue Management and Underwriting Agreement. The SEC subsequently issued an Order permitting the sale of securities on February 12, 2010. Similarly, the PSE also approved the issuance of

100,000,000 preferred shares, which was offered to the public from February 15 to February 26, 2010. The shares were listed at the PSE on March 5, 2010.

In connection with the inclusion of the generation and sale of electric power in the Parent Company's primary purpose, the Parent Company 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. The Parent Company submitted all the requirements to the SEC in February 2010 and is now awaiting approval.

At its April 29, 2010 Meeting, the Board endorsed the amendment of the Parent Company'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 informed Petron of its intention to exercise its option to acquire forty percent (40%) of SRC's outstanding capital stock, with the remaining sixty percent (60%) to be exercised by SMC not later than December 23, 2010. SMC submitted its Tender Offer Report with the SEC, offering to acquire the common shares owned by the public. The tender offer period was opened from May 5 to June 2, 2010.

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 July 30, 2010, the Petron Corporation Employees' Retirement Plan (PCERP) bought 2,276,456,097 common shares in Petron comprising 24.025% of the total outstanding capital stock thereof from SEA Refinery Holdings B. V. The purchase and sale transaction was executed on the board of the Philippine Stock Exchange, at the price of ₱7.20 per share.

In relation to the option agreement outlined above, SMC exercised its option to acquire 40% of the outstanding common stock of SEA BV on June 15, 2010. As a result of the exercise of the option and the acquisition of the tendered shares, SMC beneficially owns and controls 2,063,456,764 of the Petron's common shares or approximately 22% of the total outstanding common shares of Petron.

On September 3, 2010, SMC purchased additional 1,517,637,398 common shares of Petron from SEA BV. As of such date, SMC beneficially owns and controls 38.20% of Petron's common shares.

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

2. Statement of Compliance

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 "Group") as of and for the year ended December 31, 2009. The audited consolidated financial statements are available upon request from the Group's registered office at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

Basis of Measurement
The condensed consolidated interim financial statements were 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.

3. Significant Accounting Policies

Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its audited consolidated financial statements as of and for the year ended December 31, 2009.

a. Changes in accounting policies

- Revised PFRS 3, *Business Combinations* (2008), incorporates the following changes that are likely to be relevant to the Group's operations:

  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
  - Any non-controlling interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

- Revised PAS 27, *Consolidated and Separate Financial Statements* (2008), requires accounting for changes in ownership interests by Petron in a subsidiary, while maintaining control, to be recognized as an equity transaction. When Petron loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in condensed consolidated interim statement of income.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items,* provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items, assessing hedge effectiveness, and designation of financial items as hedged items.

- Philippine Interpretation from International Financial Reporting Interpretations Committee (IFRIC) 17, *Distributions of Non-cash Assets to Owners*, provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed.

- *2009 Annual Improvements to PFRS*. The Financial Reporting Standards Council has adopted the *Improvements to PFRS 2009*. Among those improvements, only the following amendments were identified to be relevant but also not expected to have any material effects on the Company's condensed consolidated interim financial statements.

  - PAS 1 (Amendment), *Presentation of Financial Statements*. The amendments clarify that the classification of the liability component of a convertible instrument as current or noncurrent is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments.

- PAS 7 (Amendment), *Statement of Cash Flows*. The amendment clarifies that only expenditures that result in recognition of an asset can be classified as part of cash flow from investing activities.

- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity should determine the classification of each element based on paragraphs 7-13 of PAS 17, taking into account of the fact that land normally has an indefinite economic life.

- PAS 36 (Amendment), *Impairment of Assets*. The amendment clarifies that the largest unit to which goodwill should be allocated is the operating segment level as defined in PFRS 8 before applying the aggregation criteria of PFRS 8.

- PAS 38 (Amendment), *Intangible Assets*. The amendments clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.

- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement*. The amendment clarifies whether embedded prepayment options, in which the exercise price presented a penalty for early repayment of the loans are considered closely related to the host debt contract. It also clarifies the scope exemption which applies only to binding contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. Gains and losses on hedging instruments should be reclassified from equity to profit or loss account as a reclassification adjustment.

- PFRS 8 (Amendment), *Operating Segments*. It clarifies that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker.

- Philippine Interpretation IFRIC 9, *Embedded Derivatives - Amendment to IFRIC 9 and PAS 39*. The amendment clarifies that IFRIC 9 does not apply to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture. Currently, the Company does not have such type of embedded transaction.

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 condensed consolidated interim financial statements.

b. Accounting policy for a new transaction

From March 8, 2010, the Group has applied PAS 28, *Investments in Associates*, to account for its 40% investment in Petrochemical Asia (HK) Limited (“PAHL”) (see Note 6).

Investments in associates are those entities in which the Group has significant influence but not control over the financial and operating policies. Significant influence is presumed to exist when the percentage of ownership is between 20% and 50% of the voting power of another entity. Investees are accounted for using equity method and are recognized initially at cost. Under the equity method, the cost of investment is increased or decreased by the Group’s equity in the net earnings or losses of the investees, after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that it ceases. When the Group's losses exceed its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. Dividends received are treated as a reduction in the carrying amount of the investment.

c. New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2010, and have not been applied in preparing these condensed consolidated interim financial statements. None of these is expected to have a significant effect on the condensed consolidated interim financial statements of the Group.

4. 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, 2009.

5. 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 of 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 (Petroleum and Marketing);

b. Export sales of various petroleum and non-fuel products to Asia-Pacific countries such as South Korea, China, Taiwan, Singapore, Cambodia, Japan and Malaysia (Petroleum and Marketing);

c. Sales on wholesale or retail, and operation of service stations, retail outlets, restaurants, convenience stores and the like (Marketing);

d. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, service stations and other related structures (Leasing); and

e. 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 (Insurance).

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of September 30, 2010 and December 31, 2009 and for the nine months ended September 30, 2010 and 2009. Segment assets and liabilities exclude deferred tax assets and deferred tax liabilities:

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Period Ended Sept. 30, 2010						
Revenue						
External Sales	**₱166,434**	**₱ -**	**₱ -**	**₱3,364**	**₱ -**	**₱169,798**
Inter-segment Sales	**2,354**	**107**	**247**	**-**	**(2,708)**	**-**
Segment results	**8,459**	**89**	**128**	**122**	**107**	**8,905**
Net income	**5,075**	**132**	**44**	**120**	**(24)**	**5,347**
As of Sept. 30, 2010						
Assets and liabilities						
Segment assets	**134,928**	**2,174**	**2,932**	**1,389**	**(3,095)**	**138,328**
Segment liabilities	**84,557**	**362**	**2,030**	**540**	**(2,412)**	**85,077**
Other segment information						
Property, plant and equipment	**31,541**	**-**	**1**	**625**	**2,820**	**34,987**
Depreciation and amortization	**2,426**	**-**	**-**	**59**	**-**	**2,485**

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Period Ended Sept. 30, 2009						
Revenue						
External Sales	₱121,239	₱ -	₱ -	₱2,396	₱ -	₱123,635
Inter-segment Sales	1,545	110	144	-	(1,799)	-
Segment results	7,341	92	110	61	295	7,899
Net income	3,146	128	32	61	(1)	3,366
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 as of September 30, 2010 and December 31, 2009 and for the nine months ended September 30, 2010 and 2009:

	Retail	Lube	Gasul	Industrial	Others	Total
Property, plant and equipment						
As of September 30, 2010	**₱5,059**	**₱365**	**₱258**	**₱50**	**₱25,810**	**₱31,541**
As of December 31, 2009	4,296	427	268	63	26,297	31,351
Capital Expenditures						
As of September 30, 2010	**₱772**	**₱7**	**₱82**	**₱7**	**₱2,601**	**₱3,4,69**
As of December 31, 2009	575	5	74	11	785	1,450
Revenue						
Period ended Sept. 30, 2010	**₱67,632**	**₱1,594**	**₱10,855**	**₱69,742**	**₱18,964**	**₱168,787**
Period ended Sept. 30, 2009	52,611	1,528	8,495	48,028	12,122	122,784

Geographical Segments

The following table presents revenue information regarding the geographical segments of the Group for the nine months ended September 30, 2010 and 2009.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Period ended Sept 30, 2010						
Revenue						
Local	**₱154,830**	**₱63**	**₱247**	**₱3,364**	**(₱2,708)**	**₱155,796**
Export/International	**13,958**	**44**	**-**	**-**	**-**	**14,002**
Period ended Sept 30, 2009						
Revenue						
Local	₱114,450	₱54	₱144	₱2,396	(₱1,799)	₱115,245
Export/International	8,334	56	-	-	-	8,390

6. Incorporation of a Subsidiary and Acquisition of Associates

a. *Petron Singapore Trading Pte., Ltd. (PSTPL)*

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

b. *PAHL*

On March 8, 2010, Petron acquired 182,000,000 ordinary shares or 40% of the outstanding shares of PAHL from Vantage Stride (Mauritius) Limited ("Vantage Stride").

PAHL is a company incorporated in Hong Kong. It has an authorized capital of HK$585 million, consisting of 585,000,000 shares at HK$1 per share. Of this, 455,000,000 shares are outstanding. Silverdale (Suisse), S.A. holds 49% of the outstanding shares of PAHL while the remaining 11% is being held by PCERP.

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

c. *Limay Energen Corp. (LEC)*

On August 3, 2010, Petron together with Two San Isidro SIAI Assets, Inc. (Two San Isidro) formed Limay Energen Corporation (LEC), a company with an authorized capital stock of ₱3,400 with par value of ₱100 per share. Out of its authorized capitalization of ₱3,400, ₱850 has been subscribed, of which ₱212.5 has been paid up. Petron subscribed to ₱339.99 worth of shares of LEC representing 40% of the total subscribed capital, while Two San Isidro subscribed to ₱509.99 worth of shares of LEC, representing the remaining 60% of the total subscribed capital.

7. Property, Plant and Equipment

During the nine months ended September 30, 2010, net additions to property, plant and equipment amounted to ₱2,659 (December 31, 2009: ₱1,928).

On June 30, 2010, the Group reclassified its Petron Megaplaza Building offices in Makati City, with a net book value of ₱759, from property, plant and equipment to investment properties, as Petron moved to its new offices in SMC Head Office Complex, Mandaluyong City.

Capital Commitments
As of September 30, 2010, the Group has outstanding commitments to acquire property, plant and equipment amounting to ₱1,101 (December 31, 2009: ₱644).

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 fuel oil requirements of NPC, its Independent Power Producers (IPP) and Small Power Utility Groups (SPUG) power plants/barges. For nine months ended September 30, 2010, 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)
Feb 24, '10	Mar 10, '10	Mar to Dec '10	92,490	2,562,180	40,366	1,223,529
Mar 1, '10	Apr 28, '10	Apr to Jun '10	12,415	355,062	2,665	86,463
Apr 8, '10	Apr 12, '10	Apr to Jun '10	-	-	1,848	56,155
Jun 15, '10	Jun 23, '10	Jul to Aug '10	17,150	482,999	-	-
Jun 28, '10	Jul 05, '10	Jul to Dec '10	110,017	3,055,780	-	-
Sep 06, '10	Sep 15, '10	Sep to Dec '10			10,056	327,456

***IFO = Industrial Fuel Oil*
DFO = Diesel Fuel Oil
KL = Kilo Liters
MP = Thousand Pesos

9. Issuance of Preferred Shares

As discussed in Note 1, the Parent Company issued preferred shares. The preferred shares are peso-denominated, cumulative, non-participating, non-voting and are redeemable at the option of the Parent Company. The preferred shares have an issue price of ₱100.00 per share and a dividend rate of 9.5281% per annum computed in reference to the issue price and is payable every March 5, June 5, September 5 and December 5 of each year, when declared by the Board.

10. Related Party Transactions

Arabian American Oil Company (Saudi Aramco) is the ultimate parent company of AOC, the Parent Company's major stockholder until July 29, 2008 while PNOC was also a major stockholder until December 24, 2008. Thus, as of September 30, 2010, PNOC and Saudi Aramco are no longer considered as related parties of the Group (see Note 1).

Under the existing supply agreement, Petron supplies the bunker, diesel fuel and lube requirements of selected SMC plants and subsidiaries. Sales transaction which generally priced at Mean of Platts Singapore (MOPS) amounted to ₱8,423 and ₱828 for the nine months ended September 30, 2010 and September 30, 2009, respectively.

Petron also currently leases office spaces from SMC. The existing lease contract is for a period of five years effective June 1, 2010 and to expire May 31, 2015, with option to renew upon mutual written agreement of both parties.

11. Loans and Borrowings

Long term debts

On June 1, 2010 the Parent Company entered into a term facility agreement with Norddeutsche Landesbank Girozentrale, Singapore Branch amounting to US$355 million. The loan is subject to an annual interest of 2.5%+LIBOR rate and is payable in semi-annual installment of US$39.4 million starting on June 1, 2011. The loan will mature on June 1, 2015 and requires the Parent Company to comply with the following covenants:

1) The ratio of Consolidated Gross Adjusted Debt as at the last day of each relevant period to Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization in respect of each relevant period does not exceed 6.5:1;

2) The ratio of cash flow and cash balance to debt service in respect of any relevant period shall not be less than 1.1:1 at any time;

3) The ratio of Consolidated Gross Debt to Consolidated Net Worth does not at any time exceed 2.5:1; and

4) The ratio of current assets to current liabilities in respect of any relevant period shall not be less than 1:1 at any time.

As of September 30, 2010, the Parent Company met all the covenants set out in its long-term debts.

12. Earnings Per Share

Basic and diluted earnings per share amounts for the nine-months ended September 30, 2010 and 2009 are as follows:

	2010	2009
Net income after tax attributable to Equity Holders of the Parent Company	**₱5,320**	₱3,347
Weighted average number of shares	**9,375,104,497**	9,375,104,497
Basic and diluted earnings per share	**₱0.57**	₱0.36

13. Dividends

In relation to Note 9, the Parent Company paid cash dividends of ₱2.382 per share totaling ₱476 to its preferred stockholders on each dividend period.

On August 16, 2010, Petron paid cash dividends of ₱0.10 per share to its common stockholders amounting to ₱9,375.

14. Seasonal Fluctuations

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

15. Commitments and Contingencies

Supply and Lease Agreements

Petron and Saudi Aramco have a term contract from October 28, 2010 to October 27, 2011 for the purchase and supply of Saudi crudes at Saudi Aramco's standard Far East selling prices. The contract started October 28, 2008 and is automatically renewed with one-year extensions 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 condensed consolidated interim statement of financial position.

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

Unused Letters of Credit and Outstanding Standby Letters of Credit

Petron has approximately unused documentary letters of credit amounting to ₱87.5 as of September 30, 2010 and ₱33 as of December 31, 2009. On the other hand, outstanding standby letters of credit for crude importations amounted to ₱28,500 and ₱10,685 as of September 30, 2010 and December 31, 2009, respectively.

TCC-Related Matters

In 1998, the Bureau of Internal Revenue ("BIR") issued a deficiency excise tax assessment against the Company. The assessment relates to the Company's use of ₱659 worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Company by suppliers as payment for fuel purchases. The 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 Company is a qualified transferee of the TCCs. The BIR appealed the ruling to the Court of Appeals where the case is still pending.

In November 1999, the BIR issued a ₱284 assessment against the 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 Company. The Company contested the assessment before the CTA. In August 2006, the CTA denied the Company's petition, ordering it to pay the BIR ₱ 580 representing the ₱ 284 unpaid deficiency excise taxes for 1995 to 1997, and 20% interest per annum computed from December 4, 1999. In a Decision dated July 28, 2010, the Supreme Court ("SC') reversed and set aside the decision of the Court of Tax Appeals en banc requiring Petron to pay the BIR the amount of ₱1,805 comprised of deficiency tax of ₱580 and 20% interest from December 4, 1999 until June 24, 2010. The BIR filed a motion for reconsideration, which remains pending.

In May 2002, the BIR issued a ₱254 assessment against the 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 Company. The Company contested the assessment before the CTA. In May 2007, the CTA second division denied the Company's petition, ordering the Company to pay the BIR ₱ 601 representing the Company's ₱ 254 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 Company appealed the decision to the CTA *en banc*, which ruled in favor of the Company, reversing the unfavorable decision of the CTA second division. The BIR is contesting the CTA *en banc* decision before the SC. The BIR filed a Petition for Review with the Supreme Court. Petron's Comment was filed on April 20, 2009.

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 ₱ 911.

Petron does not believe these tax assessments and legal claims will have an adverse effect on its consolidated financial position and financial performance. Petron'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

In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of the 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 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 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 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 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 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 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 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 Company, Shell and Chevron to submit their relocation plans to the RTC. In compliance with the February 13 Resolution, the 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.

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, loaded with about 2 million liters of industrial fuel oil.

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 Petron. However, SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Department of Transportation and Communication (DOTC) and is awaiting its resolution. However, the SBMI has no jurisdiction to impose any fine or penalty on parties except the crew and owners of vessels.

Petron 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, Petron 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 (PCG).

Petron 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. On top of providing alternative livelihood for affected Guimarasnons, Petron has established programs and facilities aimed at helping improve basic education in the province.

Petron 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.

With regard to the retrieval of the remaining oil still trapped in M/T Solar I, the P & I contracted a sub-sea systems technology provider (Sonsub) to recover the oil from the sunken vessel. Oil recovery operation was technically completed on April 1, 2007.

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 the claim. Petron has filed a total of ₱220 against the IOPC as of September 30, 2008. A total of ₱129 has been paid to Petron. Out of the total outstanding claims from IOPC of ₱91, Petron collected ₱14 on July 27, 2009 as final settlement.

On June 17, 2009, a certain Emily Dalida, whose child Remelo M. Dalida died on August 16, 2006 at Brgy. Cabalagnan, Nueva Valencia, Guimaras, and Marcelino Gacho who was hospitalized for seventeen (17) days due to parapneumonic effusion, filed formal complaints for homicide for the death of Remelo Dalida and for less serious physical injuries suffered by Gacho allegedly due to exposure to the oil spill along the shores of Cabalagnan against the respondents Sunshine Maritime Development Corp., Petron and Capt. Norberto Aguro, Master of M/T Solar I. Petron, through its legal counsel, submitted its counter-affidavit on August 4, 2009. On the basis of the statement in Petron's counter-affidavit, Dalida and Gacho amended their complaint, changing the offense alleged to violations of Sec. 28, par. 5 in relation to Sec. 4 of the Phil. Clean Water Act of 2004, and dropping current Petron President Eric O. Recto, the Vice President and Board as respondents.

On August 4, 2009, the Provincial Prosecutor served a subpoena with a complaint-affidavit from Oliver Chavez, supposedly the Municipal Agriculturist of Nueva Valencia who claims to be suffering from PTB due to his exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill. The respondents are being charged of

Violation of the Philippine Clean Water Act of 2004 (RA 9275). On or about August 24, 2009, Chavez filed a Manifestation and Motion to Amend Complaint, changing the offense alleged to violations of Sec 28, par. 5 in relation to Sec. 4 of the Phil. Clean Water Act of 2004, and dropping current Petron President Eric O. Recto as respondent.

The Provincial Prosecutor issued a Subpoena in both cases directing Petron to file its Counter-Affidavit and other controvertible evidence. Petron filed its Counter-Affidavits. The cases are now deemed submitted for resolution.

Bataan Real Property Tax Cases

The 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 ₱86.4 covering the 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 ₱17 relating to the leased foreshore area on which the pier of the Company's Refinery is located. In 2007, the 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, 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 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 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 Company, which was set for October 17, 2007. Due to the Provincial Treasurer's refusal to cancel the auction sale, the 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.

In August 2010, the LBAA dismissed the Company's appeals contesting two assessments. Last September 27, 2010, the Company appealed with the CBAA the dismissal of its cases contesting two assessments.

16. Financial Risk Management Objectives and Policies

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

It is the Company's policy not to enter into derivative transactions for speculative purposes. The Company 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 Company'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 Company follows an enterprise-wide risk management framework for identifying, assessing and addressing the risk factors that affect or may affect its businesses.

The Company'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 Company'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 Company's annual business planning process.

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

a. The Investment and Risk Management Committee which is composed of the Chairman of the Board, President, and Vice Presidents of the Company, reviews the adequacy of risk management policies.

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

c. 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.

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

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

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

g. 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 Company. 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 Company, and crisis management. The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction and effort, scope and coordination of audit and any related activities.

b. The Compliance Officer, who is a senior officer of the Company that 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 Company before the SEC regarding matters involving compliance with the Code of Corporate Governance.

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 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 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 quarter-period ended September 30, 2010 and September 30, 2009:

	3Q2010	**3Q2009**
	In US$	**In US$**
Financial assets	**278**	178
Financial liabilities	**(649)**	(219)
Net foreign exposure	**(371)**	(41)

The exchange rates used to restate the US dollar denominated financial assets and liabilities stated above are ₱43.88 (3Q2010) and ₱47.39 (3Q2009).

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 quarter period ended September 30, 2010 and September 30, 2009, estimated at 95% level of confidence. 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 year.

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

	3Q2010	3Q2009
Increase/decrease in exchange rates	**10.57%**	10.74%
Increase/decrease in pretax income	**₱1,720**	₱209

Interest Rate Risk

The Company's exposure to interest rate risk is mainly related to its cash and cash equivalent 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 year, given the assumed increases/decreases in deposit rates and interest rates for Philippine peso loans and US dollar term loans, all of which at 95% level of confidence, with effect from the beginning of the quarter periods ending September 2010 and September 2009. 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 interest rates on Philippine peso and US dollar-denominated loans with floating interest rates:

	3Q2010		3Q2009	
	₱	**US$**	₱	US$
Decrease/increase in interest rates for deposits	**(22.21%)**	**(24.64%)**	(37.27%)	(10.27%)
Increase/decrease in interest rates for short term loans	**16.80%**	**-**	26.46%	87.68%
Increase/decrease in interest rates for long term loans	**10.38%**	**8.74%**	33.66%	-
Increase/decrease in pretax income	**₱190**	**₱24**	₱556	₱95

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

	3Q2010	3Q2009
Cash in bank and cash equivalent	**₱12,950**	₱13,973
Short-term loans	**₱31,043**	₱45,587
Long-term loans	**₱16,411**	₱1,500

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.

Petron Corporation and Subsidiaries
Receivables
September 30, 2010
(Amounts in Millions)

Breakdown:	
Accounts Receivable - Trade	12,526
Accounts Receivable - Non-Trade	12,721
Total Accounts Receivable	25,247

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1-30 days	9,535
	31-60 days	2,191
	61-90 days	1,282
	Over 90 days	296
Total		**13,304**
Allowance for doubtful accounts		778
Accounts Receivable - Trade		**12,526**

Management Discussion and Analysis of Financial Condition and Results of Operations

Operating Revenues and Expenses

Petron's consolidated **net income** for the first nine months of the year reached **₱ 5.35 billion**, up by ₱ 1.98 billion from the ₱ 3.37 billion earnings posted during the same period last year. The 59% improvement in the company's bottom line was primarily attributed to the combined effect of higher sales volume, better margins of petrochemical products, lower interest expense and unrealized foreign exchange gains on outstanding US$ loan with the continued appreciation of the Philippine peso versus the U.S. dollar. Comparative summary follows:

			Variance- Fav (Unfav)	
(In Million Pesos)	2010	2009	Amt	%
Sales	169,798	123,635	46,163	37
Cost of Goods Sold	156,479	111,620	(44,859)	(40)
Gross Margin	13,319	12,015	1,304	11
Selling and Administrative Expenses	4,414	4,116	298	7
Non-operating Charges	1,835	3,261	(1,426)	44
Net Income	5,347	3,366	1,981	59
EBITDA	12,058	10,394	1,664	16
Sales Volume (MB)	35,838	32,324	3,514	11
Earnings per Share	0.57	0.36	0.21	58
Return on Sales (%)	3.1	2.7	0.4	15

During the third quarter, Petron posted net profit of **₱ 1.81 billion**, 16% better than the ₱ 1.56 billion income reported a year ago despite the ₱ 0.91 billion drop in margin. The deterioration in margin was more than offset by higher interest income and translation gains versus translation losses in the comparative period last year.

Similarly**, earnings before interest, taxes, depreciation and amortization (EBITDA)** of **₱ 12.1 billion**, surpassed last year's level by 16% or ₱ 1.7 billion.

Earnings per share improved to **₱ 0.57** from ₱ 0.36 a year earlier while **return on sales** increased from 2.7% to **3.1%**.

Major contributory factors are the following:

Gross margin (GM) grew by 11% to **₱ 13.32 billion** from prior year's ₱ 12.02 billion. The following accounted for the variance in gross margin:

- **Sales volume** reached **35.8MMB,** up by 11% from prior year's 32.3MMB prompted by higher diesel, fuel oil and petrochemical sales. Diesel sales rose due to volume requirements of new builds while increase in fuel oil was triggered by heightened operations of independent power producers. Also, the commercial operations of BTX units which produce new petrochemical products benzene and toluene started only in April 2009.

- **Net sales** of **₱ 169.8 billion** for the first three quarters of 2010 exceeded 2009 level of ₱ 123.6 billion by 37%, due to the combined effect of higher average selling price (2010:

₱ 29.13/ltr vs. 2009:₱ 23.48/ltr) and volume. Regional MOPS prices increased from an average US$60.64/bbl a year before to US$80.45/bbl this year.

- **Cost of Goods Sold (CGS)** soared to **₱ 156.48 billion** from previous year's ₱ 111.62 billion as crude cost went up (2010: US$77.46/bbl vs. 2009: US$57.97/bbl). This year, 85% of CGS was sourced from crude compared to 67% of the same period last year. Lower crude consumption in 2009 was primarily due to the total plant shutdown in the first few months of the year.

- **Refinery Operating Expenses,** which formed part of CGS, totaled **₱ 3.71 billion** or 5% lower than the year before. The decline in expenses was brought about mainly by the decrease in maintenance and repairs (M&R) and lower depreciation expense. M&R was higher in 2009 due to repairs of properties damaged by the fire incident and turnaround activities of some units. The reduction, however, was partly offset by the increases in purchase utilities, and material and supplies on account of higher crude run.

- **Selling & Administrative Expenses** amounted to **₱ 4.41 billion**, 7% higher a year before. Aggressive retail expansion, rental on SMC offices and higher purchase of LPG cylinders contributed to the rise in expenses. However, on a **peso per liter basis**, actual OPEX was lower at **₱ 0.65** from ₱ 0.76 in 2009 primarily on account of the 11% rise in sales volume.

- **Net Financing Costs & Other Charges** dropped significantly from 2009 total of ₱ 3.26 billion to **₱ 1.84 billion** this year. Interest expense declined by ₱ 362 million attributed to favorable average borrowing rate (2010: 5.2% vs. 2009: 6.4%) despite the increase in average borrowing level (2010: ₱ 59.4 billion vs. 2009 average: ₱ 56.3 billion). In addition, higher interest income coupled with favorable foreign exchange translation on dollar-denominated loans largely contributed to the positive variance.

Capital Resources and Liquidity

Petron closed the third quarter of 2010 with **total assets** of **₱ 138.34 billion**, 22% or ₱ 25.15 billion higher than end-December 2009 level of ₱ 113.19 billion.

Cash and cash equivalents increased by 24% or ₱ 3.07 billion to **₱ 16.05 billion** principally due to the proceeds from loan availments and issuance of preferred shares.

Available for-sale investments (current and non-current) of **₱ 1.20 billion** declined by 11% or ₱ 151 million on account of the maturity of investment in government securities of the local insurance subsidiary.

Receivables-net amounted to **₱ 25.25 billion,** 15% or ₱ 4.45 billion lower than the ₱ 29.70 billion level as of December 31, 2009 mainly due to the drop in government receivables as a result of significant utilization of tax credit certificates.

Inventories-net went up to **₱ 32.12 billion** from ₱ 28.17 billion as at end of 2009. The ₱ 3.95 billion increase was primarily attributed to higher volume of both crude and finished products. There were minimal purchases in December 2009 in anticipation of the implementation of the ASEAN Trade in Goods Agreement (ATIGA) starting January 2010.

Other current assets posted a 29% or ₱ 1.31 billion reduction from ₱ 4.47 billion to **₱ 3.16 billion**, essentially due to the filing of input VAT claims on zero-rated sales.

Investment Properties of **₱ 0.96 billion** was four times higher than the ₱ 0.23 billion figure reported in December 2009 chiefly due to the transfer of the book value of Petron Megaplaza Offices from Property, Plant and Equipment account.

Deferred tax assets of **₱ 15 million** was twice as much from end-December 2009 balance of ₱ 7 million due mainly to the effect of translation adjustment of the foreign insurance subsidiary.

Other non-current assets were considerably higher at **₱ 24.43 billion** this year from ₱ 1.33 billion in year-end 2009 primarily traced to advances to the retirement fund.

Short-term loans and **liabilities for crude oil and petroleum product importations** went down by 9% (₱ 4.54 billion) to **₱ 45.74 billion** principally due to settlements made countered by higher crude/finished products importations.

Long-term debt inclusive of current portion showed a significant movement from ₱ 18.89 billion to **₱ 33.12 billion** chiefly due to the newly-availed NORD loan amounting to US$355 million partly reduced by amortizations of outstanding loans.

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

Deferred income tax liabilities-net at **₱ 1.89 billion** grew almost three-fold from ₱ 514 million largely due to the impact of NOLCO as well as temporary differences reflected under parent and subsidiaries' accounts.

Other non-current liabilities rose by 10% or ₱ 109 million to **₱ 1.16 billion** mainly due to the increases in provision for Asset Retirement Obligation and cylinder/cash bond deposits.

Total equity attributable to equity holders of the parent aggregated **₱ 51.10 billion** at the end of third quarter 2010 showing a 37% or ₱ 13.81 billion improvement over the end-December 2009 level due to the combined effect of the following:

- **₱ 9.86 billion** issuance of preferred shares, net of issue cost
- **₱ 5.35 billion** year-to-date net income partly reduced by the **₱ 1.44 billion** dividends on common and preferred shares.

Cash Flow

Year-on-year, operating activities of the Company generated net cash inflows amounting to **₱ 20.69 billion,** 55% higher than a year earlier due mainly to utilization of tax credit certificates in paying duties and taxes related to crude and product importations.

In Million Pesos	Sept 30, 2010	Sept 30, 2009	Change
Operating Inflows	20,691	13,373	7,318
Investing Outflows	(29,500)	(10,065)	(19,435)
Financing Inflows	11,935	622	11,313

Discussion of the company's key performance indicators:

Ratio	Sept 30, 2010	Dec 31, 2009
Current Ratio	1.3	1.3
Debt to Equity Ratio	1.7	2.0
Return on Equity (%)	16.2	12.1
Debt Service Coverage	2.7	4.2
Tangible Net worth	51.4B	37.5B

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)

The Philippine economy strongly rebounded from its sluggish growth of 1.1% in 2009. During the first half, GDP surged 7.9% as the economy benefitted from strong remittance inflows, robust recovery of trade activity, higher government and personal consumption, stable peso, prices and interest rates, and hefty election spending. This is despite the challenges faced by the economy like the El Niño crisis which hurt the agricultural sector.

91-Day Treasury-Bill Rate

91-day T-bill rates as of the first 3 quarters of 2010 stood at an average of 3.9%, lower than 2009's 4.9% FY average. Interest rates in 2010 were kept low as liquidity in the financial markets remained sufficient. Stable 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 to date.

Peso-Dollar Exchange Rate

The local currency strengthened further in the 3rd quarter and breached the ₱43/$ level. From 2009 average of ₱47.6/$, the peso averaged ₱45.6/$ as of YTD September 2010. The strong growth of OFW remittances, heavy rebound of exports, improved investor appetite with the global economic recovery, and market optimism on the new administration's good governance and policies, contributed to the peso's appreciation.

Inflation

Inflation averaged 4.1% in the 1st half, up from the 2009's 3.2% average. Uptick in prices of commodities like fuel, light, and water, and services contributed to the rise in inflation. Although prices went up, inflation remained relatively stable and manageable staying within the government's target inflation of 3.5-5.5% in FY 2010.

Dubai price

Dubai crude averaged $76/bbl in the first nine months of 2010, a strong recovery from the $61.9/bbl average in FY 2009. The uptrend of crude prices was supported by optimism arising from signs of economic recovery, especially in developing Asia. 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 and strength of the equities market also diverted investment funds to oil.

Industry Oil Demand

Data from DOE shows that as of August 2010, total oil industry demand grew by 4.8% to 307.5 MBD this year from 293.4 MBD in the same period last year. Election spending and economic rebound supported fuel consumption. Sustained OFW remittances, strong vehicle sales, and heavy rebound in the trade, air transport and power sectors 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 YTD August 2010, the new players have collectively cornered around 21.5% of the total oil market. Collectively, the new players are leading the LPG market segment with 48.9% market share.

Updates on 2010 Capital Program

The 2010 capital program endorsed last December 2009 is P15.1 billion. Of this amount P13.96 billion has already been approved and includes the refinery's power plant, service station and non-fuels business expansion, consumer facilities, 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.

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. Currently, 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. Moving forward, the National Biofuels Board will review and recommend further increases in ethanol and CME content. At the moment, however, the Department of Energy is considering making amendments to the Biofuels Act amidst the shortage of locally-produced ethanol.

To produce compliant fuels, the Company invested in CME (coco methyl esther) injection systems at the refinery and depots. Prior to the mandatory blending of ethanol into gasoline by 2009, the 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

<u>TCC-Related Matters</u>

In 1998, the Bureau of Internal Revenue ("BIR") issued a deficiency excise tax assessment against the Company. The assessment relates to the Company's use of ₱659 worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Company by suppliers as payment for fuel purchases. The 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 Company is a qualified transferee of the TCCs. The BIR appealed the ruling to the Court of Appeals where the case is still pending.

In November 1999, the BIR issued a ₱284 assessment against the 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 Company. The Company contested the assessment before the CTA. In August 2006, the CTA denied the Company's petition, ordering it to pay the BIR ₱ 580 representing the

₱ 284 unpaid deficiency excise taxes for 1995 to 1997, and 20% interest per annum computed from December 4, 1999. In a Decision dated July 28, 2010, the Supreme Court ("SC') reversed and set aside the decision of the Court of Tax Appeals en banc requiring Petron to pay the BIR the amount of ₱1,805 comprised of deficiency tax of ₱580 and 20% interest from December 4, 1999 until June 24, 2010. The BIR filed a motion for reconsideration, which remains pending.

In May 2002, the BIR issued a ₱254 assessment against the 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 Company. The Company contested the assessment before the CTA. In May 2007, the CTA second division denied the Company's petition, ordering the Company to pay the BIR ₱ 601 representing the Company's ₱ 254 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 Company appealed the decision to the CTA *en banc*, which ruled in favor of the Company, reversing the unfavorable decision of the CTA second division. The BIR is contesting the CTA *en banc* decision before the SC. The BIR filed a Petition for Review with the Supreme Court. Petron's Comment was filed on April 20, 2009.

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 ₱ 911.

Petron does not believe these tax assessments and legal claims will have an adverse effect on its consolidated financial position and financial performance. Petron'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.

<u>Pandacan Terminal Operations</u>

In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of the 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 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 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 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 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 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 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 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 Company, Shell and Chevron to submit their relocation plans to the RTC. In compliance with the February 13 Resolution, the 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.

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, loaded with about 2 million liters of industrial fuel oil.

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 Petron. However, SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Department of Transportation and Communication (DOTC) and is awaiting its resolution. However, the SBMI has no jurisdiction to impose any fine or penalty on parties except the crew and owners of vessels.

Petron 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, Petron 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 (PCG).

Petron 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. On top of providing alternative livelihood for affected Guimarasnons, Petron has established programs and facilities aimed at helping improve basic education in the province.

Petron 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.

With regard to the retrieval of the remaining oil still trapped in M/T Solar I, the P & I contracted a sub-sea systems technology provider (Sonsub) to recover the oil from the sunken vessel. Oil recovery operation was technically completed on April 1, 2007.

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 the claim. Petron has filed a total of Php220 against the IOPC as of September 30, 2008. A total of ₱129 has been paid to Petron. Out of the total outstanding claims from IOPC of ₱91, Petron collected ₱14 on July 27, 2009 as final settlement.

On June 17, 2009, a certain Emily Dalida, whose child Remelo M. Dalida died on August 16, 2006 at Brgy. Cabalagnan, Nueva Valencia, Guimaras, and Marcelino Gacho who was hospitalized for seventeen (17) days due to parapneumonic effusion, filed formal complaints for homicide for the death of Remelo Dalida and for less serious physical injuries suffered by Gacho allegedly due to exposure to the oil spill along the shores of Cabalagnan against the respondents Sunshine Maritime Development Corp., Petron and Capt. Norberto Aguro, Master of M/T Solar I. Petron, through its legal counsel, submitted its counter-affidavit on August 4, 2009. On the basis of the statement in Petron's counter-affidavit, Dalida and Gacho amended their complaint, changing the offense alleged to violations of Sec. 28, par. 5 in relation to Sec. 4 of the Phil. Clean Water Act of 2004, and dropping current Petron President Eric O. Recto, the Vice President and Board as respondents.

On August 4, 2009, the Provincial Prosecutor served a subpoena with a complaint-affidavit from Oliver Chavez, supposedly the Municipal Agriculturist of Nueva Valencia who claims to be suffering from PTB due to his exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill. The respondents are being charged of Violation of the Philippine Clean Water Act of 2004 (RA 9275). On or about August 24, 2009, Chavez filed a Manifestation and Motion to Amend Complaint, changing the offense alleged to violations of Sec 28, par. 5 in relation to Sec. 4 of the Phil. Clean Water Act of 2004, and dropping current Petron President Eric O. Recto as respondent.

The Provincial Prosecutor issued a Subpoena in both cases directing Petron to file its Counter-Affidavit and other controvertible evidence. Petron filed its Counter-Affidavits. The cases are now deemed submitted for resolution.

Bataan Real Property Tax Cases

The 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 ₱86.4 covering the 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 ₱17 relating to the leased foreshore area on which the pier of the Company's Refinery is located. In 2007, the 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, 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 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 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 Company, which was set for October 17, 2007. Due to the Provincial Treasurer's refusal to cancel the auction sale, the 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.

In August 2010, the LBAA dismissed the Company's appeals contesting two assessments. Last September 27, 2010, the Company appealed with the CBAA the dismissal of its cases contesting two assessments.

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: November 12, 2010

Principal Financial/Accounting Officer/Controller

Signature and Title

EFREN P. GABRILLO
Assistant Vice President - Controllers

Date: November 12, 2010