BROADENING our REACH

2009 Annual Report

PETRON
Fuel Success.

Our Vision

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

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

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Company Profile

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

Petron operates a refinery in Limay, Bataan, with a rated capacity of 180,000 barrels a day. 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, and industrial fuel oil. We also produce petrochemical feedstocks namely benzene, toluene, mixed xylene and propylene.

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

Through over 1,500 service stations, Petron retails gasoline, diesel, and kerosene to motorists and public transport operators. Petron also sells its LPG brand "Gasul" and "Fiesta Gas" to households and other consumers through an extensive dealership network.

Petron operates a lube oil blending plant at Pandacan Oil Terminal, where it manufactures lubes and greases. These are also sold through Petron's service stations and sales centers. Petron also operates a fuel additives blending facility at the Subic Bay Freeport. This plant serves the needs of Innospec, a leading global fuel additive company, in the Asia-Pacific region. At the same time, the company sources its requirements from this plant.

In April 2008, Petron inaugurated its 19,000 barrel per day Petro Fluidized Catalytic Cracking (PetroFCC) unit which enables Petron to convert fuel oil into more high value products namely gasoline, diesel and LPG. The PetroFCC also produces the petrochemical feedstock propylene. The propylene is further purified through the Propylene Recovery Unit so that it can be used as raw material for everyday products such as home appliances, automobile parts, etc.

Subsequently, Petron started operating its Benzene, Toluene, Xylene (BTX) Extraction Unit in mid-2009. The BTX unit expanded Petron's capability to produce more petrochemical feedstocks on top of its Propylene and Mixed Xylene production.

In line with Petron's efforts to increase its presence in the regional market, it exports various petroleum products and petrochemical feedstocks to Asia-Pacific countries such as Cambodia, South Korea, China, and Australia.

Petron is expanding its non-fuel businesses which include its convenience store brand "Treats." Petron has partnered with major fast-food chains, coffee shops, and other consumer services to give its customers a one-stop full service experience. Petron is also putting up additional company-owned and company-operated (COCO) service stations in strategic locations. In 2009, Petron launched the *Bulilit* Station Program to fulfill the fuel demands of far-flung, rural areas in the country and ensure its market dominance over the long-term.

Message to our Stockholders

Few years have been more volatile in terms of the operating climate than 2009. After a plunge in the prices of Dubai crude toward the end of 2008 to about $40 per barrel, prices nearly doubled barely 12 months later, as government stimulus packages propped up oil prices. Yet even as the world economy began to emerge out of recession, recovery took a while longer for the Philippines—with our country posting 0.9% growth in Gross Domestic Product (GDP), significantly lower than the expansion seen the previous year. Sluggish economic activity and two super typhoons towards the end of 2009 further dampened growth.

Despite these hurdles, we stayed focused on our vision and strategic goals. We continued to expand and invest in areas of our business that we believe will yield good returns and long-term growth for our company. In the effort to improve our competitiveness, we took a hard look at every link in our supply chain and worked at making our brands more accessible to our customers. As a result, we managed to turn around our losses in 2008 and finished 2009 with a net income of ₱4.3 billion. Petron's 2009 operating income stood at ₱9.19 billion, a huge reversal from the ₱1.85 billion operating loss in 2008, despite the drop in net revenues to ₱176.53 billion due largely to a series of price rollbacks in the first and second quarters of last year, and the price freeze on petroleum products in October 2009.

Among our many accomplishments in 2009 was the completion of the first phase of our retail network expansion program. In just over a year, we constructed and opened 200 new Petron service stations across the country. This unprecedented expansion gives us unrivalled market leadership in this important segment. We have also pioneered what we've dubbed the "*Bulilit* Station," an easy-to-build gasoline station that can start with 2-3 product pumps but which can be easily expanded as demand increases in growth centers, real estate development sites and provincial areas. As part of our larger expansion program, these new micro-stations put our products well within reach of the average Filipino. Just as important, the *Bulilit* Station provides business opportunities for small entrepreneurs who are looking for viable investments with a company that they trust. Many of these new stations are located in rural areas, providing much needed employment in rural Philippines.

We further extended our reach by broadening service offerings, particularly in the non-fuel category, expanding our LPG branch stores for households.

As a result, we strengthened our leadership position in virtually every segment of the oil business—the retail business, the industrial and commercial sectors, and the LPG trade.

We continued to invest in areas of our business that we believed would yield good returns and long-term growth.

Keen on tapping the combined strengths of San Miguel and Petron, we accelerated programs to create new synergies that can further fuel the growth of both companies.

In April 2009, we took another significant step in our diversification strategy as we commissioned our Benzene, Toluene and Xylene (BTX) unit at our Bataan refinery. This completes the first phase of our $300 million refinery upgrade, which began in early 2008 with the inauguration of our Petro Fluidized Catalytic Cracker and Propylene Recovery Unit. The new BTX unit allows us to expand our product streams to include high-value petrochemical feedstocks—benzene and toluene—and increase our mixed xylene production. Petrochemical prices are steadily recovering, and this new revenue stream now contributes significantly to our bottom line.

To further improve efficiencies and lower our supply costs, we continued to integrate the latest technologies and international standards at our facilities. Our adherence to strict safety and environmental standards has been affirmed by our safety record. All in all, our facilities tallied over 40 million man-hours without any lost-time incidents at the end of 2009.

Keen on tapping the combined strengths of San Miguel Corporation (SMC) and Petron Corporation, we accelerated programs to create new synergies that can further fuel the growth of both companies. As the leading retailers in their respective industries, SMC and Petron can pioneer petroleum retailing trends that will further keep the Petron station in a class of its own. Many of our service stations now carry SMC's wide array of beverage and food products and soon stations will offer San Miguel's banking and telecommunication services. These new products and services should result in more traffic at our stations.

Beyond these early synergies, we are already sharing our expertise in the areas of manufacturing practices and operational processes, logistics and supplier networks, among others.

Mid-way into 2010, we are already seeing strong and positive returns from our initiatives in 2009 and we hope to build on these successes. For instance, we have laid down the groundwork for the construction of a 70-MW power plant at our Bataan refinery. This new facility will give us a more reliable and efficient power source and is expected to generate significant savings for the Company. It was designed to give more flexibility; it can support the addition of more refinery units that would improve our competitiveness versus other refineries in the Asian region. In the meantime, the excess power can be sold to the national power grid, providing us with a steady, new revenue stream.

We are also looking at the acquisition and operation of an industrial plant in Mariveles, Bataan to further integrate our petrochemicals business. This facility would capture the incremental margin from converting our propylene production into high-value polypropylene (PP). Just to underscore the value of this emerging business, PP is used in a wide variety of industrial applications including food packaging, automotive components, textiles etc. From a

Petron's leadership in the oil industry is also fueled by our commitment to good corporate governance, social responsibility, transparency and sustainability in our operations.

national perspective, this investment will jumpstart the local petrochemical industry and will have exponential benefits for other vital manufacturing sectors.

To fund these investments, we successfully issued our Fixed Rate Corporate Notes (FXCN) amounting to ₱10 billion in May 2009. This was followed by the listing of 100 million Petron perpetual preferred shares in the Philippine Stock Exchange in March 2010 which raised another 10 billion. The strong and positive response to our FXCN and preferred shares affirms the trust and confidence of the investment community in Petron over the long-term.

By the end of April of this year, SMC partially exercised its option to purchase the shares of SEA Refinery Corporation (SRC) which owns 49.57% of Petron. SMC bought 40% of SRC's shares or 19.83% of Petron's total outstanding capital stock. An additional 1.95% of Petron shares were acquired by SMC through a tender offer that was completed in June.

Petron's leadership in the oil industry is also fueled by our commitment to good corporate governance, social responsibility, transparency and sustainability in our operations. Last year, we published our first Sustainability Report which measures the economic, environmental and social impact of our business. This form of reporting makes us more accountable to our stakeholders and allows us to focus our business strategies towards sustainable development. It likewise increases shareholder value by allowing us to look for opportunities and manage risks in a fast-changing environment. We strongly believe that safe and environment-friendly operations are essential to the long-term viability of our business.

Encouragingly, Petron was named the top Philippine company in the first-ever Asian Sustainability Ratings. Among the 200 largest Asian firms, Petron ranked 26th overall. This prestigious recognition is a testament to our efforts to pursue business goals in a manner that puts emphasis on accountability to our stakeholders.

In addition, *FinanceAsia*, a financial publishing company focusing on Asian capital markets, cited Petron for its corporate social responsibility initiatives and its leadership in promoting best practices in Philippine business.

Another feather in our cap was being named one of the best governed, publicly-listed companies in the country for the fifth straight year by the Institute of Corporate Directors (ICD).

All our achievements in the last year are the result of the strong partnerships with our major shareholders, our business partners, dealers and employees. We would like to thank them and you for your support and trust. Our shared successes and collective strengths will ensure that Petron will emerge stronger in 2010.

RAMON S. ANG
Chairman and Chief Executive Officer

ERIC O. RECTO
President


PETRON
PUDTOL
485

We are committed to our customers. Through our network expansion program, the motorist is assured that a Petron service station is always nearby to be of service. We also encourage Filipino entrepreneurs, especially those in far-flung areas, by offering them the opportunity to be Petron *bulilit* station dealers.

Never Too Far

Located at the foot of Cordillera mountain range, the Petron *bulilit* station in the remote town of Pudtol in Apayao province stands out against wide open spaces and long stretches of farmlands. The first and only petroleum dispensing station in Pudtol; it is a welcome addition to the community after decades of *bote-bote*, the costly and unsafe practice of dispensing un-branded questionable fuels in open containers. As an alternative to *bote-bote*, locals were forced to travel 20-km by jeep to buy petrol from legitimate filling stations in Junction Luna.

The Pudtol *bulilit* station is a labor of love, patience, and unrelenting hardwork for husband-and-wife dealers Cresencia "Colet" Pulido and Elfrances "Elfran" Pulido, a teller and a farmer respectively.

The idea of putting up a service station of their own came about when the Pulidos visited Colet's uncle's flourishing Petron service station in Cagayan. Impressed with his business venture, the Pulidos, budding entrepreneurs, seriously considered putting up their own service station in their home town of Pudtol. They were a bit concerned, though, that Petron would not support their idea since the site was somewhat isolated.

In early 2009, when Petron launched the *Bulilit* Station Program, the Pulidos took this as an answer to their prayers and an opportunity to pursue their dream. They applied for a service station in June of 2009. Petron's representatives inspected the property, saw the business potential of their location and recommended a *bulilit* station with double pumps instead of the single pump they first requested. Thrilled with this development, the Pulidos couldn't be happier when their application was finally approved.

By January of 2010, Pudtol had its first *bulilit* station. The Pulidos' business has been rewarding ever since.

"Other than the usual 'cold feet' with starting a new business, I didn't have any doubt that our *bulilit* station would take off," Elfran shared. "Petron was our first and only choice because of its highly-recognizable brand and publicly-trusted quality products."

The Pulidos continue to dream big. Colet shares the possible business ventures they could further explore to complement their fully owned-and-operated station, such as a convenience store or a lodge for travelers. They

Nestled in the Cordillera mountain range, the *bulilit* station brings Petron's first-rate products and quality services closer to travelers and community members of Pudtol, a remote town in Apayao province. With this new Petron service station, farmers, motorists, and other travelers need not go far to fill up their tanks.

also hope for their *bulilit* to grow into a full-fledged station someday. The Pulidos believed that hardwork is key to their success.

“We are very happy and satisfied, especially with the station’s impact on our family’s and the community’s lives.” Colet adds, “On a personal note, having been cooped up in an office for almost 20 years now, the station gives me the opportunity to socialize more with our neighbors.”

Beyond supplying the community’s fuel needs, the *bulilit* station has become a meeting place among the Pudtol townsfolk since its initial operation in February 8, 2010, a kind of communal sanctuary where farmers, tricycle drivers and other motorists–whether from town or merely passing through–spare a few minutes of their time chatting, building and strengthening their relationships as their vehicles get filled up with Petron fuels.

A Dream Come True

Dedicated, aggressive, entrepreneurial, dynamic, and with good moral character Mimosa "Mimi" E. Lopez is probably the epitome of an ideal *Bulilit* Station Dealer.

Mimi started working at the tender age of 12, as a househelp in Nueva Ecija. Determined to finish her education, Mimi asked her employers if they could support her two remaining years of high school in exchange for her continued services. They agreed, for which she was grateful.

In 1992, Mimi married Lee Lopez and settled down in Balintawak. With ₱500 between them, the young couple earned a living by selling vegetables and *sopas,* off a wooden cart or *kariton*, at Cloverleaf Market. Through hard work and prudence, they managed to put up their own store selling plastic bags in the same market.

Within 10 years of their marriage, Mimi and Lee were able to put up a second store in Oriental Market right across their first stall in Cloverleaf. The couple had more than enough resources to share with their parents and siblings. They were able to provide them with a house and their own vehicles.

Meanwhile, Mimi bought a 1,200-square-meter property along the highway of Garlang, San Ildefonso, Bulacan where she envisioned to put up a Petron service station. It had always been her dream to own a Petron station. However, she did not have enough funds to realize her dream.

When Petron launched the *Bulilit* Station Program, Mimi saw this as an opportunity to fulfill her dream. There was one hurdle: she was not confident enough to apply personally at the Pandacan Office. She thought she would have difficulty with the application given her educational background. Very humbly, she asked for the assistance of a bank manager in Quezon City where she is a valued client.

"Hindi ko rin po akalain na ang isang dating katulong ay makakarating sa ganito. Higit pong masaya dahil kasama ko ang pamilya ko sa mga nakamit ko sa mga nagdaang taon."

"Sir, *kami po ay interesadong mag* apply *sa* Petron *para sa Bulilit* Station. *Meron naman po kaming lupa pero hindi po ako marunong sa proseso*," Mimi recalled saying to the bank manager.

The manager gladly helped and went with her to meet up with Petron's Ms. Rosette Sanchez. After she complied with all the requirements, her station was finally constructed and went in operation on February 16, 2010. The station is servicing mostly vegetable dealers coming from Nueva Ecija as well as PUJs plying the San Miguel-Baliuag route. Mimi's brother Miguel and his wife Marissa are the ones managing the station.

The dealer is very satisfied with her investment so far. Ever the entrepreneur, she is now building a car care service center and a convenience store within the property to complement the service station. Again, two of her family members will manage these additional businesses which are expected to be completed in the next few months. A three-bedroom house is likewise being built alongside the C-store. This will serve as lodging for the family members who are running the *bulilit* station.

An inspiration to many, Mimi is proof that anything is possible and dreams do come true. With tears in her eyes, she concluded, "*Hindi ko rin po akalain na ang isang dating katulong ay makakarating sa ganito. Higit pong masaya dahil kasama ko ang pamilya ko sa mga nakamit ko sa mga nagdaang taon.*"

BROADENING our REACH

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Despite a challenging year, we remained focused on our core strategies of maintaining our market dominance—business diversification, growth of our non-fuels business and improvements across our supply chain. As a result, we emerged a stronger company, better-positioned to take advantage of future growth opportunities.

Closer to Our Customers

In our desire to bring Petron's world-class products and services closer to our customers, we broadened our reach and embarked on the largest service station network expansion in our company's history. From January 2009 to January 2010, 200 new Petron stations were opened across the country. Our customers can now enjoy our world-class fuel products, such as **Blaze, XCS, Xtra Unleaded** and **DieselMax** in more locations.

1,463
retail stations

Total number of Petron Service Stations as of end January 2010. Petron remains the country's largest oil company in terms of service station count and market share.

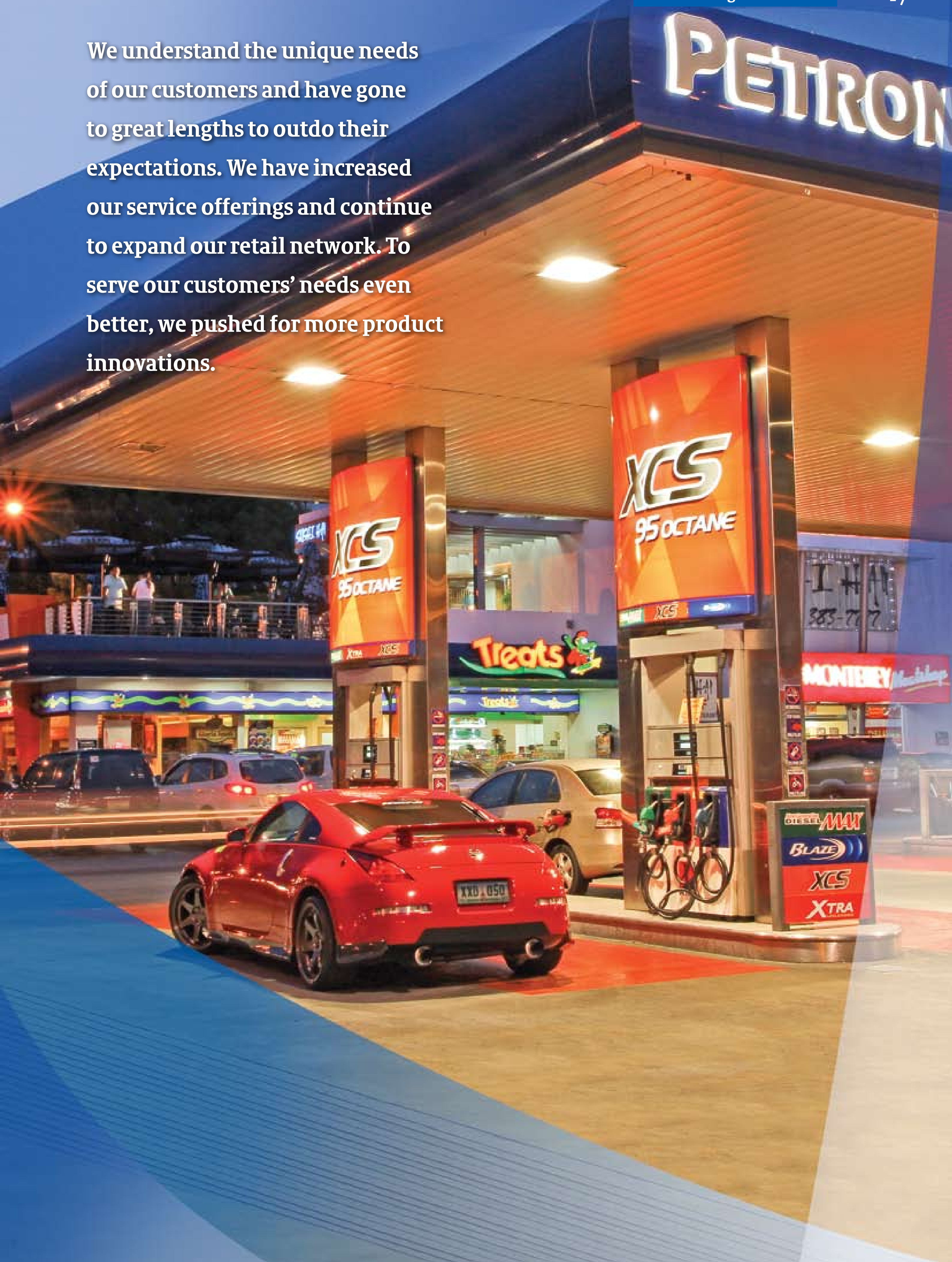
At the heart of our expansion program is the *Bulilit* or micro-filling station, a two to three product pump operation that can be easily expanded as demand increases in growth centers. It is also ideal for far-flung areas because of its low investment cost. At the end of January 2010, our retail network count stood at 1,463, the largest for any petrol company in the country. Our aggressive expansion helped us maintain our leadership in this market segment and increased our lead over our competitors. As of year-end 2009, our Reseller Trade or service station business captured over a third of the total market and remained No. 1 in this competitive sector.

In tandem with our network expansion, we continued to grow our non-fuels business (NFBs) by partnering with quick-service providers to ensure customer delight at our service stations. There are now over 100 food and service locators at Petron service stations. These include Jollibee, Chowking, National Bookstore, Starbucks, Pancake House, Goldilocks, McDonalds, Kentucky Fried Chicken, among others.

Meanwhile, we established more **Treats** outlets to cater to the growing needs of our customers. Treats, our own convenience store, offers a comprehensive product assortment ranging from packaged goods, beverages, fresh food and everything the motorist needs to keep him comfortable on the road.

We likewise rolled out several local store marketing efforts to increase service station traffic and, more importantly, to cultivate customer loyalty.

We understand the unique needs of our customers and have gone to great lengths to outdo their expectations. We have increased our service offerings and continue to expand our retail network. To serve our customers' needs even better, we pushed for more product innovations.



Taking Customer Service to Another Level

The Petron Consumer Interaction Center was established to offer increased customer convenience and efficient handling of customer orders, queries and feedback, utilizing the SAP-Customer Realationship Management Technology. Customers may dial our Metro Manila Hotline 802-777 or the toll-free number at 1-800-100PETRON.

As a result, revenues from our non-fuels businesses remained robust, growing by 16% in 2009 compared to 2008.

The Petron Fleet Card continued to expand its customer base as more and more corporate customers availed of its advantages. The Petron Fleet Card is the first microchip-powered fleet card in the country, offering a wide array of unique and value-adding features, such as greater flexibility and customization of fleet requirements to ensure efficient operations. **The Petron-BPI Mastercard**, meanwhile, is a full-service motorist credit card that offers product rebates, motoring assistance, service discounts and other freebies.

We continued to encourage the use of our **Petron e-Fuel Card**—a prepaid card best suited for motorists on a fuel budget. The card is a convenient and practical way of monitoring fuel purchases, allowing for cashless transactions in hundreds of Petron service stations.

Gasul warmed the homes of more Filipino families as the number of Gasul branch stores significantly increased by nearly 30% nationwide. The expansion of our LPG retail network enabled us to drive more store-to-home deliveries and made our various LPG products more accessible to consumers. We also saw the continued success of our ***Tawag Lang* Center**, the one-call number for timely Gasul home deliveries in Metro Manila.

To service the ever-growing number of autoLPG users, especially those with taxi fleets, we nearly doubled the outlet count offering our own **Xtend** brand. Our Xtend sales volumes recorded a 28% growth and we remain the leader in this niche segment with an estimated 31% of the total market. Over the past few years, autoLPG has become a favored alternative automotive fuel because of its lower price relative to gasoline. It also produces lower emissions.

We acquired several new industrial LPG accounts and installed additional LPG facilities in malls across the country.

Overall, our Gasul brand remains the most preferred LPG product, with nearly 35% of the total market in 2009.

In the Industrial market, we acquired the fuel requirements of several independent power producers. This helped us capture about 40% of this sector (excluding National Power Corporation or NAPOCOR)—nearly 13 percentage points higher than our nearest rival. We continued to supply all of the fuel and lubricant requirements of the National Government, the Armed Forces of the Philippines and the Philippine National Police. We also handled a significant portion of NAPOCOR's requirements.

Among our notable achievements in the Industrial market is our strong leadership in the aviation sector. Through active solicitation and more participation in this segment, our Jet A1 sales volumes increased by about 14% in 2009 compared to the previous year. In December 2009, we hit another milestone as we sold a record high of 488,000 barrels of Jet A1, cornering nearly 60% of this sub-sector.

Our lubricant brands such as **Rev-X** and **Sprint 4T** continued to be successful as evidenced by our strong Lube Trade performance. Despite weak demand, we were able to maintain our sales volumes, closing the gap between us and our closest competitor.

To meet the increasing demands of high performance vehicles, the quality level of our fully synthetic gasoline engine lubricant **Ultron Race** was enhanced. Ultron Race now meets API SM—the highest and latest quality standard for gasoline engines licensed by the American Petroleum Institute. This product is perfect for high-performance engines, especially those fitted with turbochargers or operated under the most severe conditions.

More **Petron Sales Centers** and **Petron Car Care Centers** were put up to ensure that our lubricants and other specialty products are accessible to the motoring public. The Sales Centers are exclusive distributors of Petron-branded products while the Car Care Centers offer *casa*-quality automotive repair and maintenance services at affordable prices.

To comply with the Biofuels Act of 2006, we also re-launched Petron DieselMax with 2% coconut methyl ester (CME). DieselMax is a premium quality fuel which also contains a multifunctional additive system for a cleaner engine, more efficient combustion, and fuel economy.

The **Petron Customer Interaction Center (PCIC)** was launched towards the end of 2009 in anticipation of our customers' needs and to ensure consistent quality service. The PCIC will initially cater to the needs of our customers for our facilities in Pandacan, Navotas, and Pasig. PCIC will eventually handle inquiries, feedback and sales orders for the rest of Luzon and the Vis-Min region. The PCIC uses the latest Customer Relationship Management module from Systems Applications and Products or SAP to resolve concerns and complaints expediently.

All of these programs and initiatives continue to make Petron the industry leader, serving over 37% of the total market.

Right At Your Doorstep

As a Filipino company, we understand the unique needs of our customers. For almost fifty years, our LPG brand Gasul has been an intrinsic part of Filipino households across the country. Through our hundreds of branch stores, we are able to deliver Gasul products right at our customers' doorstep. With our Gasul home delivery, our customers can be assured of safe, reliable, and world-class LPG products.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PETRON

Our commitment to operational excellence resulted in programs to ensure reliable, cost-effective and efficient delivery of our products to our customers.

Enhancing Our Supply Chain

As part of our efforts to effectively supply more environment-friendly fuels to our customers, we continued the installation of ethanol and CME blending facilities at our major terminals across the country. The use of bio-fuels not only has environmental benefits, it also spurs rural development by giving livelihood opportunities to our countrymen. Bio-fuels also lessen the country's dependence on imported crude oil and finished products.

We continued to ensure strict adherence of our facilities with stringent service quality, environmental management, and occupational health and safety standards. At the end of 2009, 32 Petron facilities were Quality Management Systems ISO 9001:2000-certified, a guarantee that the set of procedures and monitoring processes at these sites is first-rate.

Affirming our commitment to provide a safe and healthy workplace for our employees, five facilities were accorded the Occupational Health and Safety Management System ISO-180001:2007 standard. OHSAS is a world-recognized safety management system designed to identify hazards and prevent accidents. We also intensified our safety-related training programs. Over 170 employees participated in training on oil spill containment, fire-fighting, first aid and other essential courses.

To put our training into practice, we conducted a Waterborne Industry Spill Equipment (WISE)-Visayas oil spill exercise. During this major exercise, we were able to check the operational readiness of our equipment.

The Contractor Safety Management program was sustained. This is one of the essential requirements for accreditation as a Petron contractor. The project ensures that our business partners share our adherence to the best safety practices.

Our depots collectively logged a total of about 33 million man-hours without lost time due to accident/incident, underscoring the importance we place on the safety of our operations. The Department of Labor and Employment recognized us with another Safety Milestone Award. This citation is given to a few companies that have achieved exemplary safety milestones and that have shown outstanding performance in implementing the latest Occupational, Safety and Health initiatives.

More Petron sites were certified ISO 14001-2004. We now have 17 facilities that meet or even exceed local and international environmental management standards. In line with our goal to reduce our environmental footprint and to fuel sustainability in our operations, we aim for international certification of all our facilities.

To further ensure the safety and efficiency of our distribution chain, the tank truck replacement program continued in partnership with our contracted haulers. We were able to field nearly 70 new and refurbished tank trucks while retiring over 50 units. At sea, we conducted safety inspection of 56 domestic marine vessels and 460 international vessels to ascertain that these ships comply with national and international standards.

The latest technologies to improve customer service were integrated at our retail stations. At the end of 2009, 121 Petron service stations were running on the Microsoft Point-of-Sale (POS) system. POS automates sales and inventory-related processes, and enables more systematic sales analysis at the station level.

The 180,000 barrel-per-day Bataan refinery marked another milestone as our Integrated Management System (IMS) achieved Triple International Standard Certification from the TÜV-SÜD Group. The certification means that the Bataan refinery's quality management, occupational health and safety management and environmental management systems strictly adhere to world-class standards. An IMS is a cohesive framework of policies, procedures, and processes covering various aspects with the aim of fueling an organization's efficiency.

Another high point in 2009 was the completion of the first phase of our diversification into the production of petrochemical feedstocks. We started the commercial operation of our Benzene, Toluene and Xylene (BTX) unit which has the capacity to produce 22,800 MT of Benzene and 150,000 MT Toluene annually. It will also increase Mixed Xylene production up to 220,000 MT per year. Benzene, Toluene, and Mixed Xylene are the raw materials used in the manufacture of various products such as home appliances, food containers, machine housing and solvents.

We also hit our target processing efficiency index of 99.7%. This means that we were able to recover more valuable white products during crude oil processing at our Bataan refinery. We achieved this by processing more types of crude in line with our crude diversification program.

Despite major turnaround and construction activities, the refinery attained a safety record of nearly eight million man-hours without incident.

2009 also marked the first full year of operation of our Subic Fuel Additives Blending Plant. This business is part

Our Way of Life

Here at Petron, health and safety are a way of life. We are committed to promote the best interests of our stakeholders by conducting our business in a safe manner while caring for our community and environment. Given this, we provide our employees and business partners with the necessary know-how and equipment to deal with any emergency. From oil spill response to fire-fighting to first aid, you can be sure that we are ready.

of our strategy to develop new revenue streams and to expand our international presence. The plant produces fuel additives that are blended with other fuels to improve engine efficiency and reduce emissions. While most of the fuel additives are exported to other Asian countries, we were able to derive cost savings since the plant also serves our own additives requirements.

The SAP-Supplier Relationship Management procurement system was rolled out to further streamline our supply management processes and efficiently manage our logistical chain. This e-procurement system centralizes, automates, and makes transparent our purchasing process. This system and other on-going strategic sourcing programs helped the company save nearly a billion pesos in 2009.

Another major project introduced in 2009 was our Greenhouse Gas Accounting and Air Pollution Management program. This aims to identify emission reduction measures that will not only help enhance our environmental performance but also provide cost-savings throughout our supply chain. This is being undertaken in partnership with the Philippine Business for the Environment and the Clean Air Initiative-Asia.

We continued to develop our greatest asset—the Petron workforce—to ensure that they are ready to take on the challenges of a more dynamic environment. This has resulted in many accolades and citations for the company.

Strength from Within

Petron was named the top Philippine firm in the 1st Asian Sustainability Ratings (ASR) and ranked 26th among the 200 largest publicly-listed companies in Asia. The ASR is the first Asian-based in-depth assessment of corporate social responsibility (CSR) disclosures across ten countries in the region. In a business environment where accountability and transparency are becoming more important, our initiatives allow our stakeholders to better understand our social and governance activities.

FinanceAsia, a financial publishing company that focuses on Asia and its capital markets, named Petron as one of the top seven Philippine companies with the "best corporate social responsibility." The publication cited the company for its outstanding performance and leadership in promoting best practices in the business sector.

To further underscore our commitment, we were named as one of the best-governed publicly-listed companies by the Institute of Corporate Directors (ICD) for the fifth consecutive year. The ICD is an international organization that promotes good corporate governance practices and ensures adherence with global standards. Among the criteria used include board responsibility, disclosures and transparency.

We were also recognized by the International Association of Business Communicators in a number of categories during the 2009 Gold Quill Awards. Our **ArtPetron** program bagged four Gold Quill Awards of Excellence. These awards represent the highest professional acknowledgement from business communicators. Now on its ninth year, ArtPetron is the country's premier nationwide art contest that promotes Philippine culture, tradition, and values.

We secured a triple A rating—the highest possible corporate rating—from PhilRatings. PhilRatings likewise gave the same rating to the company's overall capacity to service its maturing debts. A rating of PRS AAA is given to corporations with a very strong capacity to meet its financial requirements relative to that of other Philippine companies.

Leveraging on our integrity, we successfully issued our second Fixed Rate Corporate Notes (FXCN). We upsized the issue from the original amount of ₱3 billion to ₱10 billion due to high demand from participating business partners. The strong response from the investment community underscores the long-term viability of the comapny.

Our Corporate Financial Management (CFM) System was upgraded to a newer version called Treasury and Risk Management (TRM) System. This allows us to further optimize financial operations and improve risk management.

Our achievements in the past few years can, to a significant degree, be attributed to the professional and wellness programs that have been conducted for our employees. We continue to instill a customer-oriented culture among our frontliners, while honing essential skills such as project implementation, resource planning, and people management.

Extending a Helping Hand

Together with our partners, namely, the Department of Social Welfare and Development (DSWD), Department of Education (DepEd), World Vision and Land Bank of the Philippines, over 6,300 Petron ***Tulong Aral*** elementary and high school scholars continued to receive the gift of education. This project provides books, school supplies, uniforms, and daily meal allowances for our scholars. Of the 1,137 scholars that graduated from the program in 2008, around 140 students were given recognition for academic excellence.

We are also actively involved in providing the infrastructure essential for learning. In partnership with USAID, we constructed 34 classrooms in 17 schools, mostly in the Mindanao region. Two USAID-Petron schools were inaugurated in early 2009: one in Paglat, Maguindanao and another in Malapatan, Sarangani, bringing to 44 our total school buildings nationwide. Through this school-building program, we hope to make basic education more accessible and, thus, contribute to peace and development in the region.

We forged a partnership with the Municipality of Limay and the Technical Education and Skills Development Authority (TESDA) to help residents acquire more skills such as welding, pipefitting and instrumentation. Through these training programs, we create more opportunities for the local community, particularly its youth, to enter the workforce through the projects being implemented in our Bataan refinery. We also helped refurbish the existing TESDA Center at Limay to support the local skills training requirements.

In the same municipality, we expanded our existing reforestation program by 30 hectares, bringing the total land area under our care to 330 hectares. The project has a livelihood component to benefit local farmers. Through this initiative, we also expect to restore and preserve the watershed supplying surrounding *barangays*. The reforestation of the Lamao watershed forms part of Petron's efforts to contribute in the fight against climate change.

We continued to have a lead role in the Bataan Integrated Coastal Management Program (BICMP). Through the Bataan Coastal Care Foundation, which is composed of 17 members of the business community, we implemented the Bataan Coastal Land-and-Sea-Use Zoning plan. The BICMP has become a model for public-private partnerships in environmental management.

In the City of Manila, we helped establish the Petron Health Community Center to provide specialized health services to indigent families. We also conducted nearly 50 soup kitchens in 2009, serving around 36,000 people in Pandacan. In a parallel effort, we worked with Caritas Manila on a six-month feeding program for 200 undernourished children.

Our mariculture program in Guimaras, has been successful in providing a viable alternative livelihood to local fishermen and in improving their socio-economic status. In partnership with the Southeast Asian Fisheries Development Center and Citi Philippines/ Citi Foundation, the second phase of the mariculture program was started. This allowed three other *barangays* to replicate this initiative and provide livelihood to 120 fishermen from the four *barangays*. We also continued to support 47 Self-Employment Assistance *Kaunlaran* or Sea-K associations for seaweed farming. Based on a DSWD report, this has become a source of additional income for the beneficiaries.

Being There When It Counts

Petron helped out in the national relief efforts for the victims of Typhoon *Ondoy*. Our soup kitchens reached out to over 29,000 of our countrymen in the most severely affected areas. In the aftermath of the storm, our employees and business partners continued volunteer efforts to reach out to displaced families, even as the company also took care of hundreds of its own workforce who were affected by the calamity. Our service stations also served as drop-off points for cash and relief goods donated by a very supportive public. Our Petron Car Care Centers and stations in affected areas provided 24-hour service for the duration of the crisis.

We renewed our commitment to the communities we serve as we enhanced our programs for sustainability and widened the scope of our corporate social responsibility (CSR) activities. Fuelled by employee volunteerism, CSR has increasingly become a way of life.

Board of Directors

1 RAMON S. ANG, Filipino, 56 years old, is the Chairman/Chief Executive Officer and Executive Director of Petron since January 8, 2009. He is also the Chairman of the Board Executive Committee and Compensation Committee. He is currently the Vice Chairman of San Miguel Corporation (SMC) and President & Chief Operating Officer of SMC, Chairman of Liberty Telecom Holdings Inc. and Vice Chairman and Director of Manila Electric Company. He also holds executive and directorship positions in various SMC subsidiaries.

2 ERIC O. RECTO, Filipino, 46 years old, is the President/Executive Director of the company since October 7, 2008. He became a director of Petron on July 31, 2008. He is a member of the Board Executive Committee and the Nomination and Compensation Committees. He is currently the Chief Executive Officer of Eastern Telecommunications Philippines, Inc. (ETPI) and Vice Chairman & President of ISM Communications Corporation, ETPI's parent company. He is also Vice Chairman of Philweb Corporation and Alphaland Corporation. He was previously Undersecretary of the Department of Finance, in charge of both the International Finance Group and the Privatization Office.

3 BERNARDINO R. ABES, Filipino, 79 years old, has been a non-executive Director of the company since July 2001. He is currently the Chairman of the Government Service Insurance System, following a three-year term as Chairman of the Social Security Commission.

4 EDUARDO M. COJUANGCO, JR., Filipino, 74, is a non- executive Director of Petron since January 8, 2009. He is also the Chairman and Chief Executive Officer of San Miguel Corporation. He is also the Chairman and Chief Executive Officer of Ginebra San Miguel Inc.; Chairman of ECJ & Sons Agricultural Enterprises Inc., Eduardo Cojuangco Jr. Foundation Inc., and San Miguel Purefoods Company Inc..

5 RON W. HADDOCK, American, 69 years old, is a non-executive Director since December 2, 2008. He is a member of the Audit Committee and an alternate member of the Executive Committee. He sits as the Chairman of the Board of Ashmore Energy International which he has occupied since September 2006.

6 **ESTELITO P. MENDOZA**, Filipino, 80 years old, is a non- executive Director since January 8, 2009. He is a member of the Nomination, Compensation and Audit Committees. He is currently the Chairman of Prestige Travel Inc. He holds directorships in San Miguel Corporation, the Manila Electric Company, Philippine Airlines Inc., and is head of E. P. Mendoza Law Office.

7 **ANGELICO T. SALUD**, Filipino, 47 years old, has been an Independent Director since January 8, 2009. He is the Chairman of the Nomination Committee and a member of the Audit and Compensation Committees. He is currently a Legal Consultant at the Office of the Mayor of Makati City.

8 **REYNALDO G. DAVID**, Filipino, 67 years old, has been an independent director since May 12, 2009. He is the President & Chief Executive Officer of the Development Bank of the Philippines, a position which he has occupied since October 2004. A TOYM Awardee for Offshore Banking in 1977, he has likewise been awarded by the Association of Development Financing Institutions in Asia & the Pacific (ADFIAP) as the Outstanding Chief Executive Officer in 2007.

9 **ROBERTO V. ONGPIN**, *(not in photo)* Filipino, 73 yrs. old, is a non-executive Director of the company since July 31, 2008. He is a member of the Board Executive and Compensation Committees. He is currently the Chairman of the following corporations: Philweb Corporation, ISM Communications Corporation, Eastern Telecommunications Philippines, Inc., Developing Countries Investment Corporation, La Flor de la Isabela, Inc. and Alphaland Corporation.

10 **SEUMAS S. DAWES**, *(not in photo)* Australian, 51 years old, is a Senior Fund Manager and member of the Investment Committee of Ashmore. He joined Ashmore in 2000 from Paribas Limited, where he was responsible for local markets derivatives trading. He is a returning Director of Petron, having been previously elected in July 2008.

Management Committee

RAMON S. ANG
Chairman & CEO

ERIC O. RECTO
President

LUBIN B. NEPOMUCENO
Senior Vice President & Gen. Manager

EMMANUEL E. ERAÑA
Senior Vice President & Chief Financial Officer

RAMON V. DEL ROSARIO
Vice President, Retail Marketing

MIGUEL V. ANGELES
Vice President, Commercial Marketing

ROWENA O. CORTEZ
Vice President, Supply

PETER PAUL V. SHOTWELL
Vice President, Depot & Plant Operations

SUSAN Y. YU
Vice President, Procurement

FREDDIE P. YUMANG
Vice President, Refinery

MA. CONCEPCION F. DE CLARO
Vice President, Corporate Planning

MA. CRISTINA M. MENORCA
Vice President, Controllers

ALBERT S. SARTE
Vice President, Treasurers

Seated from left to right: Ramon V. del Rosario, Concepcion F. de Claro, Susan Y. Yu, Ramon S. Ang, Emmanuel E. Eraña, Eric O. Recto, and Peter Paul V. Shotwell

Standing from left to right: Lubin B. Nepomuceno, Miguel V. Angeles, Cristina M. Menorca, Rowena O. Cortez, Albert S. Sarte, and Freddie P. Yumang

Corporate Governance

Petron's Board of Directors is composed of ten (10) members, two (2) of whom are Independent Directors. Currently, only two (2) of the members are Executive Directors, occupying the positions of the Chairman and the President of the company. The Board is responsible for overseeing the management of the company. The members of the Board are carefully selected to ensure Petron's continued competitiveness in a manner consistent with its fiduciary responsibilities. The Board is further composed of the following committees, namely: the Nomination Committee, which handles the selection and pre-screening of nominations for directors; the Compensation Committee, which reviews and modifies, among others, the salary structures of officers holding positions of Vice President or higher; the Audit Committee, which is in charge of reviewing the company's internal reports, rules and regulations that may impact on Petron's financial statements; and the Executive Committee, which allows its members to act on matters that otherwise require the immediate action of the Board.

In compliance with SEC Memo Circular No. 2, Series of 2002, Petron established its Corporate Governance Manual which took effect on January 1, 2003. The Manual recognizes and upholds the rights of every stockholder and reflects the key internal control features necessary for good corporate governance, such as the duties and responsibilities of the Board of Directors and Committees; active participation of Management in the operation of the company; organizational and procedural controls that are supported by an effective management information and risk management reporting systems; and independent audit measures to monitor the Corporation's governance, operations and information systems.

A. Stockholders' Rights

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

B. Board of Directors

Upon election, Petron Directors, including the Officers and employees, are made to sign Conflict-of-Interest & Undertaking Statements, disclosing their respective business interests, to ensure that these are not in competition with the business of Petron. To further strengthen their understanding and appreciation, they are also given the company's Code of Conduct & Ethical Business Policy at the start of their occupancy. Per By-Laws, the Corporate Secretary informs the Directors and Officers of the schedule of board meetings beforehand and board materials are released and distributed within a reasonable time before every meeting. All Directors, Officers and senior managers are required to attend the basic corporate governance seminar at SEC-accredited providers immediately upon assuming office.

Corporate Governance

List of Directors
(As of December 31, 2009)

#	Directors	Executive / Non-Executive/ Ind. Director	Attended CG Seminar	Board Meeting Dates								Commitee Membership			
				JAN 8	FEB 27	MAY 12 SB	MAY 12 ASM	MAY 12 OM	AUG 12	OCT 21	DEC 4	NOM	AUD	COM	EXE COM
1	Ramon S. Ang[1]	Executive	●		●	●	●	●	●	●	●			●	●
2	Eric O. Recto	Executive	●	●	●	●	●	●	●	●	●	●		●	●
3	Eduardo M. Cojuangco Jr.	Non-Executive	●		●	●	●	●							
4	Estelito P. Mendoza	Non-Executive	●		●	●	●	●	●	●	●	●	●	●	
5	Roberto V. Ongpin	Non-Executive	●	●	●	●	●	●	●	●	●	●		●	●
6	Bernardino R. Abes	Non-Executive	●	●	●	●	●	●	●	●	●	●			
7	Ron W. Haddock[2]	Non-Executive			●						●		●		●
8	Seumas James S. Dawes	Non-Executive	●				●	●	●	●	●				
9	Angelico T. Salud[3]	Independent Director			●	●	●	●	●	●	●	●	●	●	●
10	Reynaldo G. David	Independent Director						●	●	●	●	●		●	

[1] *Elected by the Board, together with Messrs. Cojuangco, Mendoza and Salud, on Jan. 8, 2009.*
[2] *Mr. Haddock is an Alternate Member of the Board Executive Committee (BEC).*
[3] *Mr. Salud is an Alternate Member of the BEC.*

Corporate Governance

C. Disclosure & Transparency

To instill a stable and transparent process of conducting its business and at the same time identify accountability at all times, a system of approvals is in place whereby only authorized officer(s) may approve a particular business transaction and only up to the authorized amount. Transactions with amounts exceeding the joint approval limit of the Chairman and the President are elevated to the Board for approval. Aside from the Corporate Governance Manual, several other manuals have been instituted by Management to establish company policies and guide employees in carrying out their respective functions and duties, to address business operations and set contracting and bidding procedures, and to instill business ethics, office decorum and employee discipline.

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

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

For 2009, Petron was again adjudged as among the top 20 publicly-listed companies in good corporate governance. The corporate governance rating was undertaken by the ICD in collaboration with the Securities and Exchange Commission, Philippine Stock Exchange and the Ateneo Law School. In January 2009, the company was cited by the Management Association of the Philippines as one of the top 20 companies with the best annual report.

With the election of Mr. Angelico T. Salud and Reynaldo G. David as Independent Directors to the Petron Board; the election of members and alternate members, in proper cases, of the Audit, Compensation, Nomination and Executive Committees; the conduct of regular quarterly board meetings, special board meetings and board committee meetings and the faithful attendance of and proper discharge of duties and responsibilities of Directors at such meetings; the conduct of training/seminar for Corporate Governance for incoming Directors and Officers; and strict adherence to national and local laws pertaining to its business operations, including applicable accounting standards and disclosure requirements, the company is in compliance with its Corporate Governance Manual.

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

Audit Committee Report

The Board of Directors
Petron Corporation

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

In the performance of our responsibilities, we report that in 2009:

- We reviewed and discussed with Controllers management the annual financial statement of Petron Corporation and Subsidiaries and endorsed these for approval by the Board.
- On the basis of a favorable performance appraisal on their second year as external auditor of Petron, the Audit Committee endorsed and the stockholder's approved the reappointment of Punongbayan & Araullo as the company's independent auditors for 2009. For greater transparency and in accordance with good corporate governance practice, the Board of Directors decided in 2007 to change the Company's former external auditors (SGV & Co.), whose services have been engaged by Petron for 13 consecutive years.
- The independent auditors, Punongbayan & Araullo, presented to and discussed with the Committee the scope and timing of their annual audit plan, auditmethodology, and focus areas related to their review of the financial statements.
- The Audit Committee reviewed with Punongbayan & Araullo, the external auditors' audit observations and recommendations on the Company's internal controls and management's response to the issues raised.
- The Committee reviewed with the Internal Audit Assistant Vice President and approved the annual internal audit plan and satisfied itself as to the independence of the internal audit function.
- We reviewed on a quarterly basis Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period.
- The Committee reviewed and approved the update of the Audit Committee Charter which was fully aligned with ISPPIA standards.
- All the four members of the Audit Committee, two of whom are independent directors, are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2009.

Reynaldo G. David
Chairperson
Independent Director

Angelito T. Salud
Independent Director

Estelito P. Mendoza
Director

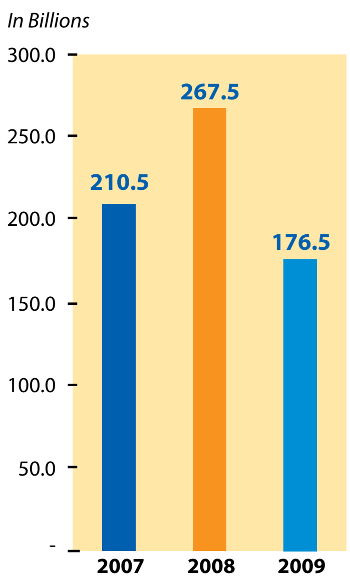
Ron W. Haddock
Director

Financial Highlights

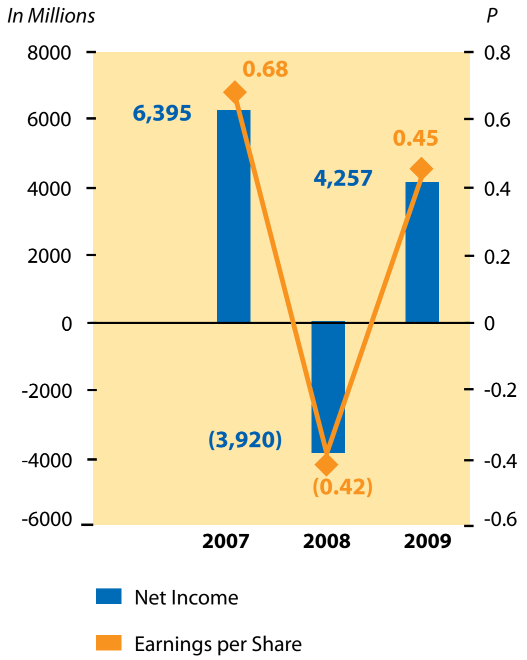
Amounts in Million Pesos

	2007	2008	2009
For the year:			
Net revenues	210,520	267,676	**176,531**
Operating income (loss)	9,908	(1,852)	**9,197**
Net income	6,395	(3,920)	**4,257**
At the End:			
Total assets	104,474	111,798	**113,193**
Total equity	37,788	32,903	**37,535**
Interest-bearing debts	46,564	64,230	**61,636**
Amounts per Share:			
Net revenues	22.46	28.55	**18.83**
Net income	0.68	(0.42)	**0.45**
Book value	4.03	3.51	**4.00**
Ratios:			
Return on assets (%)	6.66	(3.63)	**3.78**
Return on equity (%)	18.26	(11.09)	**12.09**
Current ratio (x)	1.3	1.1	**1.3**
Debt-equity (x)	1.8	2.4	**2.0**

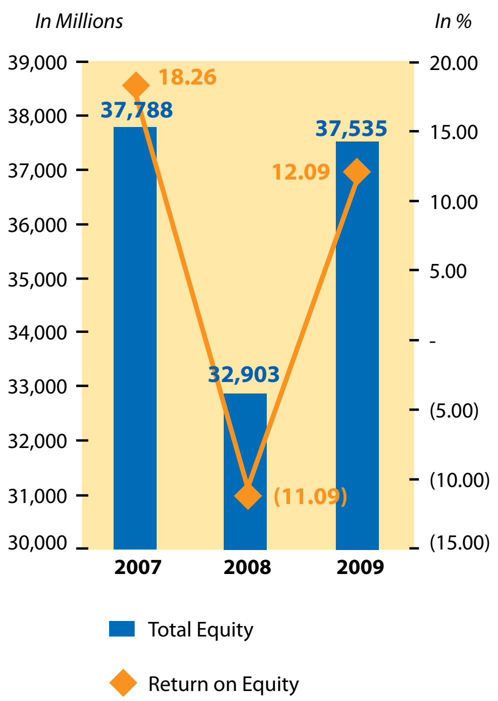
NET REVENUES



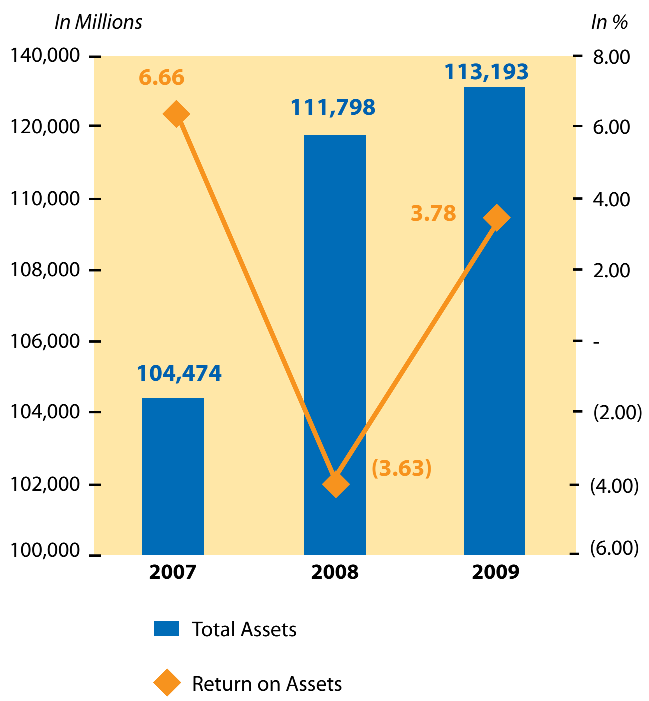
NET ICOME and EPS



TOTAL EQUITY and ROE



TOTAL ASSETS and ROA



Back to profitability

Coming from a record loss of ₱3.9 billion a year before, your Company bounced back to profitability in 2009 with a net income of ₱4.3 billion. This strong performance was achieved despite cutthroat competition and continued economic slowdown experienced by the region.

The complete turnaround from last year's loss to a positive bottom line was driven mainly by favorable margins as crude and fuel prices were more stable in 2009. Accordingly, earnings per share stood at 45 centavos from a loss of 42 centavos in 2008.

Total sales volume dropped by 11% from 49.7 million barrels to 44.2 million barrels. This was traced essentially to lower exports which slid by 5.1 million barrels specifically of low-value fuel oil products. On the other hand, Petron's domestic sales performance was better than 2008 despite the economic downturn largely felt during the first half of the year and the devastations caused by typhoons "*Ondoy* and *Pepeng*" which hit the country in the fourth quarter of 2009. Volumes sold in the domestic market improved by 0.3 million barrels brought about by the acquisition of new accounts and the growth on toluene and mixed xylene petrochemical sales.

Despite a year-on-year (YoY) decline of 34% or ₱91.1 billion in revenues due essentially to lower selling prices of petroleum products, more high value products were sold with full operation of the Company's Petro Fluidized Catalytic Cracking Unit (PFCCU).

Cost of goods sold was down by 39% or ₱102.7 billion YoY primarily on account of lower duty-paid landed cost (DPLC) per liter of crude this year that went into cost (₱19.39 in 2009 vs. ₱29.74 in 2008). Consequently, gross profit grew more than four-fold to ₱14.9 billion relative to ₱3.4 billion the previous year.

Petron's selling and administrative expenses reached ₱5.8 billion, up 10% owing mainly to higher pension costs and increased cash expenses related to the expansion of retail network.

Net financing costs, likewise, moved up by 2% or ₱71 million mainly on account of increased interest rates with the issuance of the ₱10 billion FXCN in June 2009. However, this was mitigated by foreign exchange gains as the peso strengthened vis-à-vis the US dollar reversing prior year's losses from foreign-denominated transactions.

The favorable gross margin and lower net other charges boosted pre-tax income by almost 200% to ₱5.7 billion.

Provision for income tax was ₱3.4 billion higher YoY with the pre-tax income in 2009 versus losses before income tax of ₱5.8 billion in 2008. Effective tax rate, however, was lower at 26% than the statutory 30% corporate tax rate with Petron's income tax holiday for its benzene and propylene sales as the main contributor.

Stronger financial position

Petron's financial condition became healthier with improved financial ratios and well within loan covenant limits. Debt-to-equity indicator was less-leveraged at 2.0x at the close of 2009 from 2.4x at end-2008. Current ratio moved to a more liquid 1.3x from 1.1x the previous year. Debt service coverage ratio also improved significantly to 3.8x from 1.2x.

As of December 31, 2009, total assets reached ₱113.2 billion, representing a modest growth of 1% over last year. The significant rise in receivables stemmed from higher claims from government agencies on tax refund as well as from trade accounts due to higher selling prices at year end. This was partly tapered down by the reduction in inventories due to lower volumes and the decline in property, plant and equipment as there were no major acquisitions during the year.

Lower purchases towards the end of 2009 in anticipation of the implementation of zero rate of duty for crude oil and finished products importations under the ATIGA (Asean Trade in Goods Agreement) mainly accounted for the combined ₱12.6 billion drop in suppliers' credit and short-term debts. On the other hand, long-term borrowings went up by ₱8.6 billion as the repayments during the year were fully offset by the issuance of the ₱10 billion five-year and seven-year term FXCN. The net income for the year of ₱4.3 billion and the ₱375 million actuarial gains realized in 2009 beefed up total equity to ₱37.5 billion from ₱32.9 billion in 2008.

Healthier Cash Flows

	2007	2008	2009
Earnings before interest and taxes- EBIT	10,820	(1,967)	9,794
Earnings before interest, taxes, depreciation & amortization-EBITDA	13,336	1,275	13,380
Operating cash flows	5,663	(3,524)	4,332

With a strong EBITDA, net cash inflows from operating activities of ₱4.3 billion were a reversal of the 2008 level of ₱3.5 billion outflows. Net cash inflows were used by your company to partly pay-off its debts and fund its capital expenditures.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Petron Corporation and Subsidiaries
Petron MegaPlaza
358 Sen. Gil Puyat Avenue
Makati City

We have audited the accompanying consolidated financial statements of Petron Corporation and subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2009, 2008 and 2007, and the consolidated statements of income, comprehensive income, changes in equity cash flows for the years then ended, and notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Petron Corporation and subsidiaries as of December 31, 2009, 2008 and 2007, and of its consolidated financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

Dalisay B. Duque

By: Dalisay B. Duque
Partner
CPA Reg. No. 0022692
TIN 140-240-854
PTR No. 2087604, January 4, 2010, Makati City
Partner's SEC Accreditation No. 0012-AR-2
BIR AN 08-002511-9-2008 (Nov. 25, 2008 to 2011)

Firm BOA/PRC Cert. of Reg No. 002
Firm SEC Accreditation No. 0002-FR-2

March 29, 2010

PETRON CORPORATION AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Petron Corporation is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2009, 2008 and 2007. The financial statements have been prepared in conformity with the Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

Ramon S. Ang
Chairman and Chief Executive Officer

Eric O. Recto
President

Emanual E. Eraña
Chief Finance Officer

Ma. Cristina M. Menorca
Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2009, 2008 and 2007
(Amounts in Million Pesos)

	Notes	2009	2008	2007
ASSETS				
Current Assets				
Cash and cash equivalents	4	**₱12,985**	₱12,827	₱9,732
Financial assets at fair value through profit or loss	5	**169**	161	229
Available-for-sale investments	6	**170**	331	164
Trade and other receivables - net	7	**29,696**	16,875	17,869
Inventories - net	8	**28,169**	30,792	30,271
Other current assets	11	**4,467**	11,977	10,672
Total Current Assets		**75,656**	72,963	68,937
Noncurrent Assets				
Available-for-sale investments	6	**1,185**	351	468
Property, plant and equipment - net	9	**34,784**	36,428	34,122
Investment properties - net	10	**232**	246	208
Deferred tax assets - net	22	**7**	885	1
Other noncurrent assets	11	**1,329**	925	738
Total Noncurrent Assets		**37,537**	38,835	35,537
TOTAL ASSETS		**₱113,193**	₱111,798	₱104,474
LIABILITIES AND EQUITY				
Current Liabilities				
Short-term loans	12	**₱42,744**	₱53,979	₱33,784
Liabilities for crude oil and petroleum product importation	23	**7,529**	8,907	12,873
Trade and other payables	13	**4,917**	4,562	4,544
Income tax payable		**10**	22	523
Current portion of long-term debts - net	14	**1,296**	1,263	1,604
Total Current Liabilities		**56,496**	68,733	53,328
Noncurrent Liabilities				
Long-term debts - net of current portion	14	**17,596**	8,988	11,176
Deferred tax liabilities - net	22	**514**	8	1,268
Other noncurrent liabilities	15	**1,052**	1,166	914
Total Noncurrent Liabilities		**19,162**	10,162	13,358
Total Liabilities		**75,658**	78,895	66,686
Equity Attributable to Equity Holders of the Parent				
Capital stock	16	**9,375**	9,375	9,375
Retained earnings	16	**28,014**	23,776	28,692
Other reserves	16	**(98)**	(473)	(412)
Total Equity Attributable to Equity Holders of the Parent		**37,291**	32,678	37,655
Noncontrolling Interest		**244**	225	133
Total Equity		**37,535**	32,903	37,788
TOTAL LIABILITIES AND EQUITY		**₱113,193**	₱111,798	₱104,474

See accompanying Notes to Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2009, 2008 and 2007
(Amounts in Million Pesos, Except Per Share Amounts)

	Notes	2009	2008	2007
SALES	26	**₱176,531**	₱267,676	₱210,520
COST OF GOODS SOLD	17	**161,583**	264,306	195,287
GROSS PROFIT		**14,948**	3,370	15,233
SELLING AND ADMINISTRATIVE EXPENSES	18	**(5,751)**	(5,222)	(5,325)
INTEREST EXPENSE	21	**(4,251)**	(4,180)	(1,814)
INTEREST INCOME	21	**205**	354	344
OTHER INCOME (CHARGES)	21	**597**	(115)	912
INCOME (LOSS) BEFORE TAX		**5,748**	(5,793)	9,350
TAX EXPENSE (BENEFIT)	22/32			
Current		**253**	240	3,165
Deferred		**1,238**	(2,113)	(210)
		1,491	(1,873)	2,955
NET INCOME (LOSS)		**₱4,257**	(₱3,920)	₱6,395
Attributable to:				
Equity holders of the parent	27	**₱4,238**	(₱3,978)	₱6,377
Noncontrolling interest		**19**	58	18
		₱4,257	(₱3,920)	₱6,395
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY - BASIC AND DILUTED	27	**₱0.45**	(₱0.42)	₱0.68

See accompanying Notes to Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2009, 2008 and 2007
(Amounts in Million Pesos)

	Notes	2009	2008	2007
NET INCOME (LOSS) FOR THE YEAR		**₱4,257**	(₱3,920)	₱6,395
OTHER COMPREHENSIVE INCOME (LOSS)				
Actuarial gain (loss) on defined benefit pension plan [net of tax effects of ₱141, (₱28) and ₱38 in 2009, 2008 and 2007, respectively]	16/25	**330**	(64)	88
Unrealized fair value gains (losses) on available-for-sale investments [net of tax effects of ₱5, (₱2) and (₱5) in 2009, 2008 and 2007, respectively]	6/16	**11**	(3)	(9)
Exchange difference in translating foreign operations	16	**34**	6	(1)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX		**375**	(61)	78
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**₱4,632**	(₱3,981)	6,473
Attributable to:				
Equity holders of the parent		**₱4,613**	(₱4,039)	₱6,455
Noncontrolling interest		**19**	58	18
		₱4,632	(₱3,981)	₱6,473

See accompanying Notes to Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2009, 2008 and 2007
(Amounts in Million Pesos, Except Per Share Amounts)

		Equity Attributable to Holders of the Parent						
			Retained Earnings					
	Notes	Capital Stock	Appro-priated	Unappro-priated	Other Reserves	Total	Noncon-trolling Interest	Total Equity
Balance at January 1, 2009	16	**₱9,375**	**₱23,920**	**(₱144)**	**(₱473)**	**₱32,678**	**₱225**	**₱32,903**
Total comprehensive income for the year	16	**–**	**–**	**4,238**	**375**	**4,613**	**19**	**4,632**
Reversal of appropriation for capital projects	16	**–**	**(8,428)**	**8,428**	**–**	**–**	**–**	**–**
Balance at December 31, 2009		**₱9,375**	**₱15,492**	**₱12,522**	**(₱98)**	**₱37,291**	**₱244**	**₱37,535**
Balance at January 1, 2008	16	₱9,375	₱21,172	₱7,520	(₱412)	₱37,655	₱133	₱37,788
Total comprehensive income (loss) for the year	16	–	–	(3,978)	(61)	(4,039)	58	(3,981)
Appropriation for capital projects	16	–	2,748	(2,748)	–	–	–	–
Cash dividends - ₱0.10 per share	16	–	–	(938)	–	(938)	–	(938)
Issuance of shares		–	–	–	–	–	34	34
Balance at December 31, 2008		₱9,375	₱23,920	(₱144)	(₱473)	₱32,678	₱225	₱32,903
Balance at January 1, 2007	16	₱9,375	₱17,021	₱6,232	(₱490)	₱32,138	₱115	₱32,253
Total comprehensive income for the year	16	–	–	6,377	78	6,455	18	6,473
Appropriation for capital projects	16	–	4,151	(4,151)	–	–	–	–
Cash dividends - ₱0.10 per share	16	–	–	(938)	–	(938)	–	(938)
Balance at December 31, 2007		₱9,375	₱21,172	₱7,520	(₱412)	₱37,655	₱133	₱37,788

See accompanying Notes to Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009, 2008 and 2007
(Amounts in Million Pesos)

	Notes	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before tax		**₱5,748**	(₱5,793)	₱9,350
Adjustments for:				
Interest expense	21	**4,251**	4,180	1,814
Depreciation and amortization	20	**3,586**	3,242	2,516
Interest income	21	**(205)**	(354)	(344)
Unrealized foreign exchange gains (losses) - net		**66**	(40)	(520)
Others		**(25)**	(15)	(81)
Operating income before working capital changes		**13,421**	1,220	12,735
Changes in operating assets and liabilities	28	**(4,902)**	(651)	(2,637)
Interest paid		**(4,311)**	(3,830)	(1,680)
Income taxes paid		**(90)**	(616)	(3,098)
Interest received		**214**	353	343
Net cash provided by (used in) operating activities		**4,332**	(3,524)	5,663
CASH FLOWS FROM INVESTING ACTIVITIES				
Net disposals of (additions to):				
Property, plant and equipment	9	**(1,928)**	(5,534)	(11,471)
Investment properties	10	**–**	(52)	–
Decrease (increase) in:				
Other receivables		**1,135**	(4,522)	(956)
Other noncurrent assets		**78**	(278)	5
Reductions from (additions to):				
Financial assets at fair value through profit or loss		**14**	–	–
Available-for-sale investments		**(673)**	(49)	(9)
Net cash used in investing activities		**(1,374)**	(10,435)	(12,431)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans		**166,214**	142,650	69,625
Payments of:				
Loans		**(168,836)**	(125,045)	(63,789)
Cash dividends		**–**	(924)	(927)
Increase (decrease) in other noncurrent liabilities		**(113)**	327	(134)
Net cash provided by (used in) financing activities		**(2,735)**	17,008	4,775
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(65)**	46	(10)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**158**	3,095	(2,003)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**12,827**	9,732	11,735
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱12,985**	₱12,827	₱9,732

See accompanying Notes to Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007
(Amounts in Million Pesos, Except Par Value, Share and Per Share Amounts, Exchange Rates, and Commodity Volumes)

1. Corporate Information

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

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

Through its 1,430 service stations, Petron retails gasoline, diesel, and kerosene to motorists and public transport operators. Petron also sells its LPG brands "Gasul" to households and other consumers through an extensive dealership network. To broaden its market base and further strengthen its leadership in the LPG business, Petron launched a second LPG brand called "Fiesta Gas" early in 2008.

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

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

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

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

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

On October 6, 2008, the PNOC informed SEA BV and Petron of its intent to dispose of its 40% stake in Petron. In December 2008, the 40% interest of PNOC in Petron was finally purchased by SEA Refinery Corporation (SRC), a domestic corporation wholly-owned by SEA BV. In a related development, SEA BV sold a portion of its interest in Petron, equivalent to 10.1% of the issued shares, to SRC. Thus, at the turn of the year, the capital structure of Petron is as follows: SRC – 50.1%; SEA BV – 40.47%; and the general public – 9.43%, making SEA BV's direct and indirect ownership interest in Petron at 90.57%; hence, SEA BV is the Company's parent company as of December 31, 2008 and 2009 .

On December 24, 2008, San Miguel Corporation (SMC) and SEA BV entered into an Option Agreement granting SMC the option to buy the entire ownership interest of SEA BV in its local subsidiary, SRC. The option may be exercised by SMC within a period of two years from December 24, 2008. Under the Option Agreement, it was provided that SMC will have representation in the Petron Board and Management. In the implementation of the Option Agreement between SMC and SEA BV, SMC representatives were elected to the Petron's Board and appointed as senior officers on January 8, 2009. As of December 31, 2009, SMC has not yet exercised its option to buy the shareholdings of SEA BV in Petron.

In its meeting on February 27, 2009, the Petron Board approved the amendment of the Company's Articles of Incorporation to include the generation and sale of electric power in its Primary Purpose. The objective is principally to lower the refinery power cost thru self-generation and, in the event there is excess power, to sell the same to third parties. The Board also approved an increase in the authorized capital stock of the Company from the current ₱10,000 to ₱25,000 through the issuance of preferred shares which is intended to raise funds for capital expenditures related to expansion programs, and possibly, to reduce some of the Company's debts. Both items were approved by the stockholders during its meeting on May 12, 2009. However, the approved increase in authorized capital stock to ₱25,000 was not pursued and instead a reclassification from the unissued authorized common shares to preferred shares was put through.

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

In November 2009, the requirements for the registration statement of Petron's preferred shares, the Preliminary Prospectus, were submitted to the SEC. The application for listing of preferred shares was also subsequently filed with the PSE. In the meantime, on January 21, 2010, the SEC approved Petron's amendment to its Articles of Incorporation to include preferred shares in the composition of its authorized capital stock. On January 22, 2010, the SEC favorably considered the Final Prospectus and the Issue Management and Underwriting Agreement. On March 5, 2010, Petron's preferred shares became officially traded at the PSE.

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

The principal activities of the subsidiaries are described in Note 2 under "Basis of Consolidation."

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 Petron MegaPlaza, 358 Sen. Gil Puyat Avenue, Makati City. The registered office of SEA BV is located at Prins Bernhardplein 200, 1097 JB, Amsterdam, The Netherlands.

The accompanying consolidated financial statements for the year ended December 31, 2009 (including comparatives for the years ended December 31, 2008 and 2007) were approved and authorized for issue by the Board of Directors (BOD) on March 29, 2010.

2. Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation
The accompanying consolidated financial statements of Petron and subsidiaries (collectively referred to as "the Company") were prepared on 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 measured at fair value. The consolidated financial statements are presented in Philippine pesos, which is the Company's functional and presentation currency. All amounts are rounded to the nearest millions (₱000,000), except when otherwise indicated.

Statement of Compliance with Philippine Financial Reporting Standards
The consolidated financial statements of the Company were prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board. The accounting policies have been consistently applied to all years presented, unless otherwise stated.

Presentation of Financial Statements
The consolidated financial statements are presented in accordance with PAS 1 (Revised 2007), *Presentation of Financial Statements*. The Company presents the Statement of Comprehensive Income in two statements: a separate statement of income and a statement of comprehensive income. Two comparative periods are presented for the statement of financial position regardless whether the Company has or does not have retrospective application of an accounting policy, retrospective restatement of items in the financial statements or reclassifying items in the financial statements.

Impact of New Interpretations, Revisions and Amendments to PFRS

The following are the amendments and interpretations to existing standards, effective for financial statements for the annual period beginning on or after January 1, 2009 that are relevant to the Company:

- PFRS 7 (Amendment), *Financial Instruments: Disclosures - Improving about Financial Instruments.* The amendments require additional disclosures for financial instruments that are measured at fair value in the statement of financial position. These fair value measurements are categorized into a three-level fair value hierarchy, which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows. The change in accounting policy only results in additional disclosures (see Note 31).

- 2008 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2008* which became effective for the annual periods beginning on or after January 1, 2009. Among those improvements, the following are the amendments, all of which were determined to have no material effects on the consolidated financial statements, relevant to the Company:

    - PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. Prior to the presentation of the amendment, all held for trading financial assets of the Company are already classified as current assets under PAS 1.

    - PAS 23 (Amendment), *Borrowing Costs.* The amendment clarifies the definition of borrowing costs to include interest expense determined using the effective interest method under PAS 39. The Company's current accounting policy is consistent with this amendment.

- PAS 36 (Amendment), *Impairment of Assets.* Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

- PAS 38 (Amendment), *Intangible Assets*. The amendment clarifies when to recognize a prepayment asset, including advertising or promotional expenditures. In the case of supply of goods, the entity recognizes such expenditure as an expense when it has a right to access the goods. Also, prepayment may only be recognized in the event that payment has been made in advance of obtaining right access to goods or receipt of services.

- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement*. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was changed. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.

- PAS 40 (Amendment), *Investment Property.* PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value. The Company has no property under construction or development for future use as investment property at the time of the adoption of the amendment.

The following are the amended standards, interpretations and revisions to PFRS, which are effective for the annual period beginning January 1, 2009, that have been early adopted by the Company.

- PFRS 8, *Operating Segments*, (effective from January 1, 2009). Under this new standard, a reportable operating segment is identified based on the information about the components of the entity that management uses to make decisions about operating matters. In addition, segment assets, liabilities and performance, as well as certain disclosures, are to be measured and presented based on the internal reports prepared for and reviewed by the chief decision makers. The Company identifies operating segments and reports on segment assets, liabilities and performance based on internal management reports therefore, adoption of this new standard did not have a material impact on the Company's financial statements as it merely improved the disclosure of operating segment.

  The Company effectively early adopted this standard starting 2003 as the Company's segment reporting disclosure were significantly in compliance with the required additional disclosures of this new standard.

- PAS 1 (Revised 2007), *Presentation of Financial Statements,* which became effective on January 1, 2009 requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate statement of income and a statement of comprehensive income. The statement of income shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature. Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

  The Company effectively early adopted the amendment to this standard as the Company has significantly complied with the revisions as prescribed by this amended standard starting in its 2005 financial statements while changes in the consolidated financial statements nomenclature were made in 2007. The Company elected to present the "Statement of Comprehensive Income" in two statements: the "Statement of Income" and a "Statement of Comprehensive Income."

- PAS 23 (Revised 2007), *Borrowing Costs.* Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed.

  Adoption of this new standard has no impact on the consolidated financial statements as the Company's accounting policy is to capitalize all interest directly related to qualifying assets.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programme,* became effective on July 1, 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transactions in which they are granted and, therefore, part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.

  This interpretation has no significant impact on the Company since the amount involved is not material; hence, no significant changes to disclosures were made in the consolidated financial statements.

The following new, amended standards and Philippine Interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2009 but are not relevant to the Company:

- PFRS 1 (Amendment), *First-time Adoption of PFRS and PAS 27* (Amendment), *Consolidated and Separate Financial Statements* (effective from January 1, 2009).

- PFRS 2 (Amendment), *Shared-based Payment* (effective from January 1, 2009).

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operatio*n (effective from October 1, 2008).

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2009. Among those, management has initially determined the following, which the Company will apply in accordance with their transitional provisions, to be relevant but not expected to have any material effects on its consolidated financial statements:

- PAS 27 (Revised), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value, and a gain or loss is recognized in profit or loss.

- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective from July 1, 2009). The amendment clarifies the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. Management is yet to assess the impact that this amendment is likely to have on the consolidated financial statements of the Company.

- PFRS 3 (Revised), *Business Combinations* (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the noncontrolling interest in the acquiree either at fair value or at the noncontrolling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

- Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be taken in profit or loss.

- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers* (effective from July 1, 2009). This interpretation provides guidance on how to account for items of property, plant and equipment received from customers; or cash that is received and used to acquire or construct specific assets. It is only applicable to agreements in which an entity receives from a customer such assets that the entity must either use to connect the customer to a network or to provide ongoing access to a supply of goods or services or both.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective on or after July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps, and have happened with increased regularity during the financial crisis.

  The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

  - the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with PAS 39;

  - the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

  - if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

  - the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss

  The Company, however, does not normally extinguish financial liabilities through equity swap.

- *2009 Annual Improvements to PFRS.* The FRSC has adopted the *Improvements to PFRS 2009*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009, or January 1, 2010. 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 consolidated financial statements:

  - PAS 1 (Amendment), *Presentation of Financial Statements* (effective from January 1, 2010). The amendment clarifies the current and non-current classification of a liability that can at the option of the counterparty, be settled by the issue of the entity's equity instruments.

  - PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Presently, the Company classified only recognized assets as cash flow from investing activities.

- PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.

- PAS 18 (Amendment), *Revenue* (effective from January 1, 2010). The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Management will apply this amendment prospectively in its 2010 consolidated financial statements.

- PAS 36 (Amendment), *Impairment of Assets* (effective from January 1, 2010). PAS 36 clarifies that the largest unit permitted for the purpose of allocating goodwill to cash-generating units for goodwill impairment is the operating segment level defined in PFRS 8 before aggregation.

- PAS 38 (Amendment), *Intangible Assets* (effective from July 1, 2009). The amendment clarifies 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* (effective from January 1, 2010). The amendment clarifies whether embedded prepayment options, in which the exercise price represented a penalty for early repayment of the loan 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 and loss account as a reclassification adjustment.

- PFRS 8 (Amendment), *Operating Segments* (effective from January 1, 2010). It clarifies that a measure of segment assets should be disclosed only if the amount is regularly provided to the chief operating decision maker (CODM). Presently, the Company already reports total assets for each of its reportable segments as they are regularly provided to the CODM.

- Philippine Interpretation IFRIC 9, *Embedded Derivatives – Amendments to IFRIC 9 and PAS 39* (effective for annual periods ending on or after June 30, 2009). 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.

- Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate,* (effective from January 1, 2012). This Interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, Construction Contracts, or PAS 18, Revenue, and accordingly, when revenue from the construction should be recognized.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year, which is as of December 31 of each year, as the Parent Company, using consistent accounting policies.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation. Intercompany losses that indicate an impairment are recognized in the consolidated financial statements.

Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are de-consolidated from the date such control ceases.

There were no subsidiaries acquired or disposed of during the year whose results of operations may need to be included or excluded in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

The consolidated subsidiaries of the Company in 2009, 2008 and 2007 are as follows:

Subsidiaries	Percentage of Ownership	Country of Incorporation
Overseas Ventures Insurance Corporation (Ovincor)	100.00	Bermuda
Petrogen Insurance Corporation (Petrogen)	100.00	Philippines
Petron Freeport Corporation (PFC)	100.00	Philippines
Petron Marketing Corporation (PMC)	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiary	40.00	Philippines

The primary purpose of PFC and PMC is to, among others, sell on wholesale or retail and operate service stations, retail outlets, restaurants, convenience stores and the like.

NVRC's primary purpose is to acquire real estate and derive income from its sale or lease. In October 2008, Petron's original ownership interest of 79.95% in NVRC became 40% due to NVRC's increase in authorized capital stock in the form of preferred shares (approved by the SEC on December 22, 2008) which was subscribed to by the Petron Corporation Retirement Fund (PCRF) only, thereby increasing the ownership interest of PCRF to 60%. NVRC remains a subsidiary of Petron by virtue of control as the operating and financial decisions of NVRC still rest with Petron.

Petrogen and Ovincor are both engaged in the business of non-life insurance and re-insurance.

Noncontrolling Interests
Noncontrolling interests represent the portion of profit or loss and the net assets not held by the Company and are presented separately in the consolidated statements of income, comprehensive income, changes in equity and in the equity section of the consolidated statement of financial position, separate from Equity Attributable to Equity Holders of the Parent. Acquisitions of noncontrolling interests are accounted for using the entity concept method, where the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

Interest in a Joint Venture
The Company's 33.33% joint venture interest in Pandacan Depot Services Inc. (PDSI), included under "Other Noncurrent Assets" account in the consolidated statement of financial position, incorporated on September 29, 2004 under the laws of the Republic of the Philippines, is accounted for under the equity method of accounting. The interest in joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Company's share in net assets of the joint venture, less any impairment in value. The consolidated statement of income reflects the Company's share in the results of operations of the joint venture presented as part of "Other Income (Charges) – Miscellaneous" account (see Note 21). The Company has no capital commitments or contingent liabilities in relation to its interest in this joint venture.

Results of operations as well as financial position balances of PDSI were less than 1% of the consolidated values and as such are not material; hence, were no longer separately disclosed.

Foreign Currency-Denominated Transactions and Translations
Foreign currency transactions are translated into the functional currency of the Company, using the exchange rate at the date of the transaction. Exchange gains or losses arising from the settlement of such transactions and from the re-measurement of monetary assets and liabilities at year-end exchange rates are credited or charged to current operations.

The operating results and financial position of Ovincor, which are measured using the U.S. dollars, its functional currency, are translated to Philippine pesos, the Company's functional currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

- All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation is taken to equity under Revaluation Reserves.

The translation of the financial statements into Philippine peso should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

Related Party Relationships and Transactions
Related party transactions exists when one party has the ability to control, directly and indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between, and/or among entities which are under common control with the reporting enterprise, and between, and/or among the reporting enterprise and its key management personnel, directors or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Transactions between related parties are accounted for at terms similar to those offered to non-related entities in an economically comparable market.

Segment Reporting
In identifying its operating segments, management generally follows the Company's operating businesses which are recognized and managed separately according to the nature of the products marketed and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

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

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

There have no changes from prior periods in the measurement methods used to determine reported segments. No asymmetrical allocations have been applied between segments.

Financial information on business and geographical segments are presented in Note 33.

Financial Instruments
The Company recognizes a financial asset or liability initially at fair value in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL. Transaction costs directly related to financial instruments measured at FVPL are immediately recognized in the statements of income.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income in the statements of income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Financial assets and liabilities are further classified into the following categories: financial assets or liabilities at FVPL, financial liabilities at amortized cost, loans and receivables, held-to-maturity (HTM) investments and AFS investments. Financial liabilities that do not qualify as and are not designated at FVPL are subsequently measured at amortized cost using the effective interest method. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

Financial Assets or Liabilities at FVPL. Financial assets or liabilities are classified in this category if acquired principally for the purpose of selling or repurchasing in the near term or upon initial recognition, it is designated by management as FVPL. Financial assets or liabilities at FVPL are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or,

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are accounted for in the consolidated statement of income. Interest earned or incurred is recorded as interest income or expense, respectively. Dividend income is recorded as other income according to the terms of the contract, or when the right to receive payment has been established.

Derivatives are also categorized as financial assets or liabilities at FVPL, except those derivatives that may be designated and considered as effective hedging instruments. The Company did not designate any of its derivative transactions under hedge accounting.

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

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

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

Classified as financial assets at FVPL are the Company's investments in marketable equity securities and proprietary membership shares and derivative assets (see Note 31). The Company's financial liabilities at FVPL as of December 31, 2009, 2008 and 2007 only pertains to derivative liabilities (see Note 31).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Financial assets are carried at cost or amortized cost, using the effective interest method, in the consolidated statement of financial position. Interest on loans and receivables is included in the "Interest Income" account in the consolidated statements of income. Losses arising from impairment of such financial assets are recognized under "Selling and Administrative Expenses" in the consolidated statement of income. Loans and receivables with maturity within 12 months from the reporting date are classified as part of current assets. Otherwise, these are classified as noncurrent assets.

Financial assets classified as loans and receivables in the consolidated statement of financial position are the Company's cash and cash equivalents and trade and receivables (see Note 31). Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and are subject to an insignificant risk of change in value.

Financial liabilities include short term loans, trade and other payables, long-term debt, liabilities for crude oil and petroleum product importation, cash bond, cylinder deposits and other noncurrent liabilities (see Note 31).

Accounts payable are initially recognized at fair value and subsequently measured at amortized cost less settlement payments. Long-term debts are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium.

The carrying amounts of short-term financial assets and liabilities are a reasonable approximation of its fair value due to their short duration. Long-term financial assets and liabilities are discounted to their present values, where time value of money is material.

AFS Investments. AFS investments are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They may include equity securities, money market papers and other investment securities.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS investment securities, as well as the impact of restatement on foreign currency-denominated AFS investment securities, is reported in the consolidated statement of income. The unrealized gains and losses arising from the changes in fair value of AFS investments, net of tax, are excluded from profit or loss and are recognized as other comprehensive income reported in the consolidated statements of comprehensive income and in the consolidated statement of changes in equity under "Other Reserves" account, until the investment is de-recognized or until the investment is determined to be impaired at which time the cumulative gains or losses are reclassified from "Other Reserves" account to the consolidated statement of income and presented as a reclassification adjustment within the consolidated statement of comprehensive income.

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

Classified as AFS investments are Petrogen's investments in government securities and Ovincor's Republic of the Philippines nine-year bonds (ROP9 Bonds) (see Note 31).

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sell other than an insignificant amount of HTM investments before their maturity, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the HTM investments are de-recognized or impaired. The effects of restatement on foreign currency-denominated HTM investments are recognized in the consolidated statement of income.

Assets under this category are classified as current assets if maturity is within 12 months from the reporting date and as noncurrent assets if maturity date is more than a year.

The Company has no HTM investments as of December 31, 2009, 2008 and 2007.

Impairment of Financial Assets

All financial assets except for those at FVPL are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is an objective evidence that a financial asset or group of financial asset is impaired. Different criteria to determine impairment are applied for each category of financial assets as described below.

Loans and Receivables. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognized in the consolidated statement of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (i.e. when they are past due or when objective evidence is received that a specific counterparty will default), and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Investments. If an AFS asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from equity to the consolidated statement of income and presented as a reclassification adjustment within the consolidated statement of comprehensive income. Reversals in respect of equity instruments classified as AFS investments are not recognized in the consolidated statement of income. Impairment losses on AFS investments related to debt instruments are reversed through the consolidated statement of income only if the increase in fair value of the investment can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

De-recognition of Financial Instruments

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

- The rights to receive cash flows from the asset have expired;

- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or,

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

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

Financial Liabilities. A financial liability is de-recognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting Financial Instruments
Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

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

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

Property, Plant and Equipment
Property, plant and equipment, except land, are stated at cost less accumulated depreciation, amortization and any impairment in value. Land owned by NVRC is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and taxes, and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and impairment loss, if any, are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

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

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

Buildings and related facilities	20 - 25	Years
Refinery and plant equipment	10 - 16	Years
Service stations and other equipment	4 - 10	Years
Computers, office and motor equipment	2 - 6	Years
Leasehold improvements	10	years or the term of the lease, whichever is shorter

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment. The residual value, if any, is also reviewed and adjusted if appropriate, at the end of each reporting period.

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

Construction in-progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment, interest and other direct costs. Construction in-progress is not depreciated until such time as the relevant assets are completed and available for operational use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from de-recognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the item) is included in the consolidated statement of income in the year the item is de-recognized.

Investment Properties

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party, completion of construction or development or commencement of development with a view to sale. These transfers are recorded using the carrying amount in use of the investment property at the date of the change.

Investment properties are de-recognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

For financial reporting purposes, depreciation of office units is computed on a straight-line basis over the estimated useful lives of the assets of 20 years. For income tax reporting purposes, depreciation is computed using the double-declining balance method.

Intangible Assets

Franchise fees are stated at cost less accumulated amortization and any impairment in value. These are being amortized on a straight-line basis over 5 to 10 years upon commencement of commercial operations. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described under Impairment of Non-financial Assets policy below.

As of December 31, 2009, 2008 and 2007, the Company has existing and pending trademark registrations for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and two flames, for Powerburn 2T, and for Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for another 50 years after the creator's death.

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

Expenses incurred for research and development of internal projects and internally developed patents and copyrights are expensed as incurred and classified under the caption of Others under "Selling and Administrative Expenses" account in the consolidated statement of income (see Note 18).

Impairment of Non-Financial Assets

The carrying values of long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the smallest cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statement of income.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

Employee Benefits

The Company has a tax qualified and fully funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized in other comprehensive income, presented in the consolidated statement of comprehensive income, in the period in which they arise. Any actuarial gains and losses and adjustments arising from the limits on asset ceiling test that have been recognized directly in other comprehensive income, are taken directly to retained earnings.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

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

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

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

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

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

Cylinder Deposits

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

The Company maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than ₱200 at any given time, to take care of possible returns by dealers.

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a credit adjusted pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

The Company recognizes provisions arising from legal and/or constructive obligations associated with the cost of dismantling and removing an item of property, plant and equipment and restoring the site where it is located, the obligation for which the Company incurs either when the asset is acquired or as a consequence of having used the asset during a particular year for purposes other than to produce inventories during that year. Asset retirement obligation is presented under "Other Noncurrent Liabilities" (see Note 15).

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

When there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources, no provision is recognized in the consolidated statement of financial position but disclosures are required for the contingent liability.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no contingent liabilities are recognized in the consolidated statement of financial position.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets which are not recognized in the consolidated statement of financial position but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Revenue

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

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

Interest income. Revenue is recognized on a time proportion basis that reflects the effective yield on the assets.

Rental income. Rental income arising from investment properties is accounted for on a straight-line basis over the lease terms.

Dividend income. Dividend income is recognized at the time the right to receive the payment is established.

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

- the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,

- receivables and payables that are stated with the amount of sales tax included.

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

Expense

Cost and expenses are recognized in the consolidated statement of income upon utilization of goods and services or at the date they are incurred. All finance costs are reported in profit or loss, except capitalized borrowing costs which are included as part of the cost of the related qualifying assets, on an accrual basis.

Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. For financial reporting purposes, interest on loans used to finance capital projects is capitalized as part of project costs (classified as Construction in-progress under the "Property, Plant and Equipment" account in the consolidated statement of financial position) during construction period. The capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and interest are being incurred. Interest costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. For income tax reporting purposes, such interest is treated as deductible expense in the year the interest is incurred.

Operating Leases

Company as a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Company as a Lessor. Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease terms on the same bases as rental income. Operating lease payments are recognized as income in the consolidated statement of income on a straight-line basis over the lease term.

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

A re-assessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;

b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or,

d. There is a substantial change to the asset.

Where a re-assessment is made, lease accounting shall commence or cease from the date when the change in circumstance gave rise to the re-assessment for scenarios a, c or d and at the date of renewal or extension period for scenario b.

Income Taxes
Tax expense recognized in the consolidated statement of income comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity. Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in consolidated statement of income, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in consolidated statement of comprehensive income or consolidated statement of changes in equity, respectively.

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws, used to compute the amount of tax, are those that are enacted or substantively enacted at the end of the reporting period.

Deferred Tax. Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

Equity
Capital stock represents the nominal value of shares that have been issued.

Retained earnings, the appropriated portion of which is not available for distribution, include all current and prior period results of operations as disclosed in the consolidated statement of income.

Other reserves comprise gains and losses due to the revaluation of AFS investments, translation adjustment in foreign subsidiary (Ovincor) and actuarial gains and losses in defined benefit pension plan.

Dividend distributions payable to equity shareholders are included under “Trade and Other Payables” account when the dividends have been approved in a general meeting prior to or on the reporting date.

All transactions with owners of the parent are recorded separately within equity.

Earnings (Loss) Per Share Attributable to the Equity Holders of the Parent
Basic earnings (loss) per share is computed by dividing net income or loss by the weighted average number of outstanding shares after giving retroactive effect to any stock split and stock dividends declared during the year.

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

Subsequent Events
Any post-year-end events that provide evidence of conditions that existed at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material in the notes to consolidated financial statements.

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3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Company to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

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

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

Operating Lease Commitments – Company as Lessor/Lessee. The Company has entered into commercial property leases on its investment property portfolio. The Company has determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.

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

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

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

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

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

Provisions and Contingencies. Judgement is exercised by management to distinguish between provisions and contingencies. The Company's policy on recognition and disclosure of provisions is discussed under Note 2; and the relevant disclosures on commitments are presented in Notes 23, 24 and 26 and on contingencies in Note 35.

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

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

Impairment losses on trade and other receivables amounted to ₱58, ₱71 and ₱50 in 2009, 2008 and 2007, respectively (see Note 18). Receivables written off amounted ₱7 and ₱3 in 2008 and 2007, respectively. There were no receivables written off in 2009. The carrying value of receivables, amounted to ₱29,696, ₱16,875 and ₱17,869 as of December 31, 2009, 2008 and 2007, respectively (see Note 7).

Net Selling Prices of Inventories. In determining the net selling price of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amounts of inventories of ₱28,169, ₱30,792 and ₱30,271 as at the end of 2009, 2008 and 2007, respectively (see Note 8) is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial year.

Inventory write-down amounted to ₱1,141 in 2009 and ₱2,432 in 2008. In 2007, the net realizable value of inventories is higher than its cost.

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

Reduction in the allowance for inventory obsolescence amounted to ₱40 in 2007 (see Note 8). There was no reversal in the allowance for inventory obsolescence in 2009 and 2008.

Useful Lives. The useful life of each of the Company's item of property, plant and equipment, and investment properties is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment and investment properties would increase the recorded cost of goods sold, selling and administrative expenses, and decrease noncurrent assets.

There is no change in estimated useful lives of property, plant and equipment, and investment properties based on management reviews at the reporting date. The carrying amounts are analyzed in Notes 9 and 10.

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

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

Estimated fair values of investment property (office units) amounted to ₱214, ₱219 and ₱214 as of December 31, 2009, 2008 and 2007, respectively (see Note 10).

Impairment of Non-financial Assets. The Company assesses impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and,
- Significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable value. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Determining the recoverable value of assets requires the estimation of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse impact on the results of operations.

No impairment loss was required to be recognized in 2009, 2008 and 2007. The aggregate carrying amount of property, plant and equipment, and investment properties amounted to ₱35,016, ₱36,674 and ₱34,330 as of December 31, 2009, 2008 and 2007, respectively (see Notes 9 and 10).

Fair Value of Financial Instruments. Management uses valuation techniques in measuring fair value of financial instruments, where active market quotes are not available. In applying the valuation techniques, management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about assumptions that market participants would make. These estimates may vary from actual prices that would be achieved in an arm's length transaction at the reporting date.

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

- *Financial Assets at FVPL and AFS Investments.* Market values have been used to determine the fair values of traded government securities and equity shares. Market value is determined mainly by reference to the stock exchange quoted market bid prices at the close of business on the reporting date.

- *Derivative Assets and Liabilities.* The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Mark-to-market valuation in 2009 of commodity hedges is based on the forecasted crude and product prices by Mitsui & Co. Energy Risk Management Ltd. (MERM), an independent trading group while the mark-to-market valuation in 2008 and 2007 were based on KBC Market Services, an independent consulting group.

- *Cash Bonds.* Fair value is estimated as the present value of all future cash flows discounted using the market rates for similar types of instruments. Discount rates used in 2009, 2008 and 2007 are 5.11%, 6.44% and 5.76%, respectively.

- *Long-term Debt – Floating Rate.* For variable rate loans that re-price every three months, the carrying value approximates its fair value because of recent and regular re-pricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting, the principal amount plus the next interest payment, using the prevailing market rate for the period up to the next re-pricing date. Average discount rates used in 2009, 2008 and 2007 are 7.72%, 6.99% and 6.31%, respectively.

Pension Costs. The determination of the obligation and cost for pension and other retirement benefits is dependent on the selection of certain assumptions used by actuary in calculating such amounts. Those assumptions are described in Note 25 and include, among others, discount rate and rate of compensation increase. In accordance with PAS 19*, Employee Benefits,* as amended, the Company recognizes all actuarial gains and losses in the consolidated statement of comprehensive income, and therefore generally affects the recorded obligation. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's pension obligations.

Net pension plan assets amounted to ₱451, ₱299 and ₱509 as of December 31, 2009, 2008 and 2007, respectively (see Note 11).

Asset Retirement Obligation. The Company has an asset retirement obligation arising from leased service stations and depots. Determining asset retirement obligation requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Company determined the amount of asset retirement obligation, by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Company's current credit-adjusted risk-free rate ranging from 5.41% to 10.15% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The Company also has an asset retirement obligation arising from its refinery. However, such obligation is not expected to be settled for the foreseeable future and therefore a reasonable estimate of fair value cannot be determined. Thus, the asset retirement obligation amounting to ₱541, ₱706 and ₱461 as of December 31, 2009, 2008 and 2007, respectively (see Note 15), covers only the Company's leased service stations and depots.

Realizable Amount of Deferred Tax Assets. The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow or part of the deferred tax asset to be utilized.

As of December 31, 2009, 2008 and 2007, the gross deferred tax assets amounted to ₱2,731, ₱3,170 and ₱1,309, respectively (see Note 22).

Contingencies. The Company currently has various tax assessments and legal claims. The Company develops an estimate of the probable costs for the assessments and resolutions of these claims in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these cases and is based upon an analysis of potential results. The Company does not believe these tax assessments and legal claims will have a material adverse effect on its consolidated financial position and results of operations.

No provision for probable losses arising from contingencies was required to be recognized in 2009, 2008 and 2007 (see Note 35).

4. Cash and Cash Equivalents

	2009	2008	2007
Cash on hand	**₱3,101**	₱4,536	₱2,862
Cash in banks	**1,560**	2,778	3,385
Money market placements	**8,324**	5,513	3,485
	₱12,985	₱12,827	₱9,732

Cash in banks earn interest at the respective bank deposit rates. Money market placements are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest (see Note 21) at the respective money market placement rates ranging from 2.5% to 6.2% in 2009, 2.5% to 6.8% in 2008, and 1.5% to 6.0% in 2007.

5. Financial Assets at FVPL

	2009	2008	2007
Marketable equity securities	**₱92**	₱88	₱152
Proprietary membership shares	**77**	73	77
	₱169	₱161	₱229

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

Changes in fair value recognized in 2009, 2008 and 2007 amounted to ₱22, (₱67) and ₱49, respectively (see Note 21).

6. AFS Investments

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

Petrogen's government securities are deposited with the Insurance Commission (IC) in accordance with the provisions of the IC, for the benefit and security of its policyholders and creditors. These investments bear fixed interest rates of 6.3% to 8.9% in 2009, 6.8% to 14.6% in 2008 and 6.9% to 11.9% in 2007 (see Note 21).

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

Following is the breakdown of investments by contractual maturity dates as of December 31, 2009, 2008 and 2007:

	2009	2008	2007
Due in one year or less	**₱170**	₱331	₱164
Due after one year through five years	**1,185**	351	468
	₱1,355	₱682	₱632

The movements in the AFS investments as of December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Balance at the beginning of year	**₱682**	₱632	₱632
Additions	**988**	207	138
Disposals	**(329)**	(163)	(103)
Amortization of discount (premium)	**(12)**	(3)	(28)
Fair value gains (losses) – net	**50**	(7)	11
Foreign currency gains (losses)	**(24)**	16	(18)
Balance at the end of year	**₱1,355**	₱682	₱632

7. Trade and Other Receivables

	2009	2008	2007
Trade	**₱13,119**	₱7,339	₱12,715
Related parties – trade (see Note 23)	**-**	63	100
Allowance for impairment loss on trade receivables	**(781)**	(744)	(696)
	12,338	6,658	12,119
Related parties – non-trade (see Note 23)	**-**	2	2
Government	**13,352**	7,751	4,440
Others	**4,060**	2,502	1,336
Allowance for impairment loss on non-trade receivables	**(54)**	(38)	(28)
	17,358	10,217	5,750
	₱29,696	₱16,875	₱17,869

Trade receivables are noninterest-bearing and are generally on a 45-day term.

Government receivables pertain to tax claims, such as VAT and specific tax claims (see Note 11). Of these receivables, ₱10,507 is over 30 days but less than one year. The filing and the collection of claims is a continuous process and is closely monitored.

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

All of the Company's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and impairment losses have been recorded accordingly.

A reconciliation of the allowance for impairment at the beginning and end of 2009, 2008 and 2007 is shown below.

	2009	2008	2007
Balance at beginning of the year	**₱782**	₱724	₱684
Additions (see Note 18)	**58**	71	50
Write off	**–**	(7)	(3)
Interest income on accretion (see Note 21)	**(5)**	(6)	(7)
Balance at the end of year	**₱835**	₱782	₱724

There were no reversal of allowance for impairment losses in 2009, 2008 and 2007.

As of December 31, 2009, 2008 and 2007, the age of past due but not impaired trade accounts receivables (TAR) is as follows (see Note 30):

		Past Due But Not Impaired			
Dec. 31, 2009	**Within 30 Days**	**31 to 60 Days**	**61 to 90 Days**	**Over 90 Days**	**Total**
Reseller	**₱20**	**₱6**	**₱6**	**₱22**	**₱54**
Lubes	**1**	**13**	**9**	**16**	**39**
Gasul	**11**	**40**	**51**	**62**	**164**
Industrial	**46**	**593**	**247**	**502**	**1,388**
Others	**-**	**5**	**47**	**92**	**144**
Total TAR	**₱78**	**₱657**	**₱360**	**₱694**	**₱1,789**
Dec. 31, 2008					
Reseller	₱46	₱3	₱3	₱22	₱74
Lubes	1	9	7	16	33
Gasul	20	31	70	69	190
Industrial	41	383	115	504	1,043
Others	4	5	32	130	171
Total TAR	₱112	₱431	₱227	₱741	₱1,511
Dec. 31, 2007					
Reseller	₱106	₱13	₱6	₱15	₱140
Lubes	7	48	10	6	71
Gasul	15	101	52	77	245
Industrial	158	1,314	231	455	2,158
Others	4	5	44	160	213
Total TAR	₱290	₱1,481	₱343	₱713	₱2,827

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

8. Inventories

	2009	2008	2007
At net realizable value:			
Petroleum	**₱13,903**	₱12,672	₱–
Crude oil and others	**13,457**	17,381	–
TBA products, materials and supplies:			
TBA	**18**	34	17
Materials and supplies	**791**	705	582
	₱28,169	₱30,792	₱599
At cost:			
Petroleum	**₱–**	₱–	₱12,341
Crude oil and others	**–**	–	17,331
	–	–	29,672
	₱28,169	₱30,792	₱30,271

If the Company used the moving-average method (instead of the first-in, first-out method, which is the Company's policy), the cost of petroleum, crude oil and other products would have increased (decreased) by (₱1,378), ₱2,243 and ₱1,183 as of December 31, 2009, 2008 and 2007, respectively.

In 2009, new products of the Company include Petron Diesel Max with 2% Biodiesel, Petron Industrial Diesel Fuel with 2% Biodiesel and upgrade of Ultron Race from API SL to API SM. On the other hand, product enhancements and research activities were made on the possible effect of ethanol-gasoline blends on rubber and polymeric materials in the containment and fuel delivery systems.

In 2008, new products of the Company include Petron E10 Premium, pCHEM CA 6100, pCHEM CI 5140, and pCHEM DS 9100 while product enhancements and research activities were made on Ultron Race, Ultron Rallye, and Ultron Touring from API SL to API SM.

In 2007, new products include Sprint 4T Enduro, Sprint 4T Rider, Sprint 4T Extra and Hydrotur SW 68 while product enhancements and research activities were made on the New Petron XCS and the use of Coco Methyl Ester (CME) in the Company's diesel fuel.

Research and development costs (see Note 18) on these products constituted the expenses incurred for internal projects in 2009, 2008 and 2007.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to ₱155,983, ₱259,391 and ₱191,613 in 2009, 2008 and 2007, respectively (see Note 17).

The movements in the allowance for decline in value of inventories at the beginning and end of 2009, 2008 and 2007 are shown below.

	2009	2008	2007
Balance at beginning of the year	**₱2,742**	₱301	₱341
Additions due to:			
Write-down	**1,141**	2,432	–
Obsolescence	**7**	9	–
Reversal of allowance for			
Write-down	**(3,488)**	–	–
Obsolescence	**–**	–	(40)
Balance at the end of year	**₱402**	₱2,742	₱301

Reversal of allowance for inventory write-down in 2009, which was due to price changes and reversal of allowance for inventory obsolescence in 2007, which resulted from: (a) extension of the period of non-movement for lubricants, greases and additives; and, (b) implementation of the Asset Policy based program for storehouse materials, were both charged as part of Others - net under "Cost of Goods Sold" account (see Note 17).

9. Property, Plant and Equipment

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2009, 2008 and 2007 are shown below.

	Buildings and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
December 31, 2009							
Cost	**₱15,106**	**₱36,451**	**₱4,074**	**₱2,313**	**₱4,242**	**₱1,451**	**₱63,637**
Accumulated depreciation and amortization	**(8,171)**	**(14,088)**	**(3,389)**	**(1,945)**	**(1,260)**	**–**	**(28,853)**
Net carrying amount	**₱6,935**	**₱22,363**	**₱685**	**₱368**	**₱2,982**	**₱1,451**	**₱34,784**
December 31, 2008							
Cost	₱14,084	₱31,300	₱4,002	₱2,212	₱4,015	₱6,096	₱61,709
Accumulated depreciation and amortization	(7,094)	(12,114)	(3,102)	(1,762)	(1,209)	–	(25,281)
Net carrying amount	₱6,990	₱19,186	₱900	₱450	₱2,806	₱6,096	₱36,428
December 31, 2007							
Cost	₱13,436	₱18,138	₱3,551	₱2,118	₱3,985	₱15,214	₱56,442
Accumulated depreciation and amortization	(6,445)	(10,300)	(2,802)	(1,640)	(1,133)	–	(22,320)
Net carrying amount	₱6,991	₱7,838	₱749	₱478	₱2,852	₱15,214	₱34,122
January 1, 2007							
Cost	₱13,041	₱18,361	₱3,396	₱2,004	₱3,874	₱4,570	₱45,246
Accumulated depreciation and amortization	(5,829)	(9,152)	(2,552)	(1,507)	(1,053)	–	(20,093)
Net carrying amount	₱7,212	₱9,209	₱844	₱497	₱2,821	₱4,570	₱25,153

A reconciliation of the carrying amounts at the beginning and end of 2009, 2008 and 2007, of property, plant and equipment, is shown below.

	Buildings and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
Balance at January 1, 2009, net of accumulated depreciation and amortization	**₱6,990**	**₱19,186**	**₱900**	**₱450**	**₱2,806**	**₱6,096**	**₱36,428**
Additions	**1,148**	**5,495**	**202**	**117**	**228**	**910**	**8,100**
Disposals	**(126)**	**(344)**	**(130)**	**(16)**	**(1)**	**(5,555)**	**(6,172)**
Depreciation and amortization charges for the year (see Note 20)	**(1,077)**	**(1,974)**	**(287)**	**(183)**	**(51)**	**–**	**(3,572)**
Balance at December 31, 2009, net of accumulated depreciation and amortization	**₱6,935**	**₱22,363**	**₱685**	**₱368**	**₱2,982**	**₱1,451**	**₱34,784**

	Buildings and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
Balance at January 1, 2008, net of accumulated depreciation and amortization	₱6,991	₱7,838	₱749	₱478	₱2,852	₱15,214	₱34,122
Additions	667	13,347	478	166	32	5,383	20,073
Disposals	(2)	(29)	(4)	(3)	–	(14,501)	(14,539)
Depreciation and amortization charges for the year (see Note 20)	(666)	(1,970)	(323)	(191)	(78)	–	(3,228)
Balance at December 31, 2008, net of accumulated depreciation and amortization	₱6,990	₱19,186	₱900	₱450	₱2,806	₱6,096	₱36,428
Balance at January 1, 2007, net of accumulated depreciation and amortization	₱7,212	₱9,209	₱844	₱497	₱2,821	₱4,570	₱25,153
Additions	432	56	157	166	123	10,644	
Disposals	(13)	(91)	–	(3)	–	–	11,578
Depreciation and							(107)
amortization charges for the year (see Note 20)	(640)	(1,336)	(252)	(182)	(92)	–	(2,502)
Balance at December 31, 2007, net of accumulated depreciation and amortization	₱6,991	₱7,838	₱749	₱478	₱2,852	₱15,214	₱34,122

Interest capitalized in 2009, 2008 and 2007 amounted to ₱40, ₱316 and ₱893, respectively. Capitalization rates used for general borrowings (both short- and long-term loans) were 5.94% in 2009, 7.20% in 2008 and 5.37% in 2007, while capitalization rates used for specific borrowings were 3.05% to 8.88% in 2008 and 4.60% to 8.88% in 2007 (see Note 14).

In July 2007, the Thermofor Catalytic Cracking Unit (TCCU) was decommissioned to pave the way for the Petro Fluidized Bed Catalytic Cracker (PetroFCC). Some of the components of the TCCU were re-used and made part of the PetroFCC. The PetroFCC, which has a conversion capacity of 19,000 barrels per day, and the Propylene Recovery Unit (PRU), which can produce 140,000 metric tons of propylene annually, are the Philippines' first petrochemical feedstock facilities. The units became operational in the first quarter of 2008 (see Note 11).

Major turnaround activities scheduled in January 2009 was implemented in advance in December 2008 to take advantage of the planned Total Plant Shutdown (TPS) due to poor refining economics. This facilitated the earlier tie-in of new project and other modification works in the refinery units. Likewise, the TPS facilitated the earlier implementation of all the scheduled turnaround maintenance works and other related maintenance activities. The TPS lasted until early February 2009.

No impairment loss was required to be recognized in 2009, 2008 and 2007.

10. Investment Properties

The gross carrying amounts and accumulated depreciation at the beginning and end of 2009, 2008 and 2007 are as follows:

	Land	Office Units	Total
At December 31, 2009			
Cost	**₱100**	**₱263**	**₱363**
Accumulated depreciation	**–**	**(131)**	**(131)**
Net carrying amount	**₱100**	**₱132**	**₱232**
At December 31, 2008			
Cost	₱100	₱263	₱363
Accumulated depreciation	–	(117)	(117)
Net carrying amount	₱100	₱146	₱246
At December 31, 2007			
Cost	₱48	₱263	₱311
Accumulated depreciation	–	(103)	(103)
Net carrying amount	₱48	₱160	₱208
At January 1, 2007			
Cost	₱48	₱263	₱311
Accumulated depreciation	–	(89)	(89)
Net carrying amount	₱48	₱174	₱222

A reconciliation of the carrying amounts at the beginning and end of 2008, 2007 and 2006 of investment properties is shown below.

	Land	Office Units	Total
Net carrying amount, at January 1, 2009	**₱100**	**₱146**	**₱246**
Additions	**-**	**-**	**-**
Disposals	**-**	**-**	**-**
Depreciation for the year (see Note 20)	**-**	**(14)**	**(14)**
Net carrying amount, at December 31, 2009	**₱100**	**₱132**	**₱232**
Net carrying amount, at January 1, 2008	₱48	₱160	₱208
Additions	104	–	104
Disposals	(52)	–	(52)
Depreciation for the year (see Note 20)	–	(14)	(14)
Net carrying amount, at December 31, 2008	₱100	₱146	₱246
Net carrying amount, at January 1, 2007	₱48	₱174	₱222
Additions	49	–	49
Disposals	(49)	–	(49)
Depreciation for the year (see Note 20)	–	(14)	(14)
Net carrying amount, at December 31, 2007	₱48	₱160	₱208

The Company's investment properties consist of office units located at Petron MegaPlaza and parcels of land in various locations intended for service stations. Estimated fair values for the office units, based on recent sale of units within the building and/or sale of units in comparative Grade A buildings, amounted to ₱214, ₱219 and ₱214 in 2009, 2008 and 2007, respectively.

The Company's parcels of land are located in Metro Manila and some major provinces. As of December 31, 2009, 2008 and 2007, the aggregate fair market value of the properties of ₱120 million, determined by independent appraisers, is higher than their carrying values, considering recent market transactions and specific conditions related to the parcels of land as determined by NVRC.

Rental income earned from office units amounted to ₱13, ₱16 and ₱15 in 2009, 2008 and 2007, respectively, which are recognized as part of "Other Income (Charges)" account (see Note 21).

There are no other direct selling and administration expenses (i.e., repairs and maintenance) other than depreciation and real property taxes arising from investment properties that generated income in 2009, 2008 and 2007.

11. Other Assets

	2009	2008	2007
Current:			
Input VAT (see Note 7)	**₱3,779**	₱10,739	₱4,768
Prepaid expenses	**510**	824	5,699
Special-purpose fund	**36**	201	34
Derivative assets (see Note 31)	**39**	55	100
Others	**103**	158	71
	₱4,467	₱11,977	₱10,672
Noncurrent:			
Net pension plan assets (see Note 25)	**₱451**	₱299	₱509
Catalyst (see Note 9)	**243**	241	11
Long-term receivables	**189**	202	77
Prepaid rent	**339**	100	66
Others – net	**107**	83	75
	₱1,329	₱925	₱738

The "Noncurrent Assets – Others" classification includes franchise fees amounting to ₱9 in 2009, 2008 and 2007, net of amortization of franchise fees amounting to ₱1 in all years presented. Amortization of franchise fee is included as part of "Selling and Administrative – Others" account in the consolidated statements of income (see Note 18).

12. Short-term Loans

This account pertains to unsecured peso loans obtained from local banks with maturities ranging from 30 to 180 days and with interest ranging from 4.00% to 8.25% (see Note 21). These loans are intended to fund the importation of crude oil and petroleum products (see Note 23), capital expenditures (see Note 9) and working capital requirements.

13. Trade and Other Payables

	2009	2008	2007
Accounts payable (see Note 23)	**₱1,407**	₱1,870	₱2,372
Accrued expenses	**2,179**	1,305	1,238
Specific taxes and other taxes payable	**830**	401	443
Others (see Note 31)	**501**	986	491
	₱4,917	₱4,562	₱4,544

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

Accrued expenses include accrual of unpaid interest amounting to ₱529 in 2009, ₱677 in 2008 and ₱421 in 2007 (see Note 31) and selling and administrative expenses that are normally settled within 12 months from the reporting date.

14. Long-term Debts

	2009	2008	2007
Unsecured peso loans (net of debt issue cost amounting to ₱126 in 2009, ₱50 in 2008 and ₱69 in 2007)	**₱18,892**	₱10,251	₱10,231
Syndicated dollar bank loans (net of debt issue costs amounting to ₱31 in 2007)	**–**	–	2,549
	18,892	10,251	12,780
Less current portion (net of debt issue costs amounting to ₱34, ₱19 and ₱48 in 2009, 2008 and 2007, respectively)	**1,296**	1,263	1,604
	₱17,596	₱8,988	₱11,176

Movements in debt issue costs are as follows:

	2009	2008	2007
Beginning balance	**₱50**	₱100	₱128
Additions	**104**	–	17
Accretion for the year (see Note 21)	**(28)**	(50)	(45)
Ending balance	**₱126**	₱50	₱100

The salient terms of the foregoing debts are summarized as follows:

Creditor	Landbank of the Philippines (Landbank)	BPI Capital Corporation and ING Bank N.V.	Club Loan (MBTC, Mega ICBC, Maybank and Robinsons)	Fixed Rate Corporate Notes (Various Noteholders)	Fixed Rate Corporate Notes (Various Noteholders)	Nordeutsche Landesbank Girozentrale (NORD)
Original Amounts	₱2 billion	₱6.3 billion	₱2 billion	₱5.2 billion	₱4.8 billion	US$100 million
Payment Terms	12 equal quarterly installments starting March 2009 up to November 2011	One-time payment in August 2011	13 quarterly installments starting January 2009 up to January 2012	One-time payment in June 2014	6 principal payment of ₱48 and ₱4,512 bulk payment on June 2016	Six semi-annual installments starting on the 30th month (June 2004-June 2009). Fully paid on December 12, 2008
Interest rates in: 2009 2008 2007	(Variable rates) 4.58% to 6.99% 4.60% to 6.99% 4.60% to 5.84%	(Fixed rate) 8.88% 8.88% 8.88%	(Fixed rate) 6.73% 6.73% 6.73%	(Fixed rate) 8.14% Not applicable Not applicable	(Fixed rate) 9.33% Not applicable Not applicable	(Variable rates) Not applicable 3.05% to 3.58% 5.26% to 6.52%
Security	None	None	None	None	None	None
Major Covenants (see Note 29)	None	Maintenance of certain financial ratios	Maintenance of certain financial ratios	Maintenance of certain financial ratios	Maintenance of certain financial ratios	Maintenance of certain financial ratios

On June 5, 2009, Petron issued ₱5,200 and ₱4,800 or a total of ₱10,000 Fixed Rate Corporate Notes. Subsequent to the end of the reporting period, the Board Executive Committee (BEC) approved on February 23, 2010, the issuance of a mandate for the group of Australia and New Zealand Banking Group Limited (ANZ), The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTM) and Standard Chartered Bank (SCB) to be the Lead Arrangers and Bookrunners for the Company's US$350 Syndicated Term Loan Facility with greenshore option to upsize to US$450 (see Note 34).

On January 30, 2007, the Company entered into a Club loan agreement with MBTC and Citibank amounting to ₱1,000 each. In December 2007, Citibank assigned ₱900 of its interest in the Club loan agreement to the following financial institutions:

Bank Name	Amount
MayBank Phils.	₱500
Mega International Commercial Bank of China (ICBC)	300
Robinsons Bank	100
Total	₱900

In May 2008, Citibank assigned its remaining ₱100 interest to Insular Life Assurance Co. Ltd.

As of December 31, 2009, the Company is in compliance with its loan covenants. Debt maturities (gross of ₱126 debt issue costs) for the next five years are as follows:

Year	Amount
2010	₱1,330
2011	7,630
2012	202
2013	48
2014	5,248
	₱14,458

The last installment for the NORD loan amounting to US$23 (approximately ₱1,078), which was originally due in June 2009, was paid on December 12, 2008. No early termination penalty was imposed by the bank. The related debt issue cost accelerated to the consolidated statements of income amounted to ₱3.3 (see Note 21).

The total interest incurred on these long-term loans amounted to ₱1,310, ₱964 and ₱1,124 in 2009, 2008 and 2007, respectively. Of these amounts, nil was capitalized in 2009, ₱201 and ₱861 were capitalized in 2008 and 2007, respectively (see Note 9).

15. Other Noncurrent Liabilities

	2009	2008	2007
ARO	**₱541**	₱706	₱461
Cylinder deposits (see Note 31)	**200**	201	243
Cash bonds (see Note 31)	**245**	205	173
Others (see Note 31)	**66**	54	37
	₱1,052	₱1,166	₱914

Movements in the ARO are as follows:

	2009	2008	2007
Beginning balance	**₱706**	₱461	₱660
Additions	**15**	71	1
Effect of change in discount rate	**(226)**	142	(236)
Accretion for the year (see Note 21)	**60**	40	36
Settlement (see Note 21)	**(14)**	(8)	–
Ending balance	**₱541**	₱706	₱461

16. Equity

a. Capital Stock for all years presented is as follows:

	Number of Shares	Amount
Authorized – ₱1.00 par value	10,000,000,000	₱10,000
Issued and outstanding (see Note 27)	9,375,104,497	₱9,375

The issued and outstanding common shares have been adjusted for the fractional shares issued in prior years.

b. Retained Earnings

i. Declaration of Cash Dividends

In 2008 and 2007, the Company declared cash dividends of ₱0.10 per share totalling ₱938 to all stockholders of record as of June 2, 2008 and May 28, 2007, respectively. There were no dividends declared in 2009.

As of December 31, 2009, the Company's retained earnings exceed its paid up capital. The Company plans to declare dividends in 2010.

ii. Appropriation for Capital Projects

Additional appropriation for future capital projects and loan obligations amounted to ₱2,748 and ₱4,151 in 2008 and 2007, respectively. On February 27, 2009, the Company's BOD approved a resolution to reverse ₱8,428 of the appropriated retained earnings. There were no additional appropriations for capital projects made in 2009.

iii. Amendment of Articles of Incorporation

The Company's BOD approved on October 21, 2009, an amendment to the Company's Articles of Incorporation to reclassify a total of 624,895,503 unissued common shares with a par value of ₱1.00 per share to 624,895,503 preferred shares with a par value of ₱1.00 per share. The amendment was likewise approved by the stockholders holding at least two-thirds of the outstanding capital stock of the Company through written assent on January 6, 2010.

On January 21, 2010, the SEC approved the Company's Amended Articles of Incorporation (see Notes 1 and 34).

c. Revaluation Reserves

The reconciliation of the revaluation reserves is as follows:

	2009			
	Actuarial gain(loss) on defined benefit plan	**Unrealized fair value gain (loss) on AFS investments**	**Exchange difference in translating foreign operations**	**Total**
Balance at beginning of year	**(₱486)**	**₱5**	**₱8**	**(₱473)**
Additions (deductions), net of tax effects	**330**	**11**	**34**	**375**
Balance at end of year	**(₱156)**	**₱16**	**₱42**	**(₱98)**
		2008		
Balance at beginning of year	(₱422)	₱8	₱2	(₱412)
Additions (deductions), net of tax effects	(64)	(3)	6	(61)
Balance at end of year	(₱486)	₱5	₱8	(₱473)
		2007		
Balance at beginning of year	(₱510)	₱17	₱3	(₱490)
Additions (deductions), net of tax effects	88	(9)	(1)	78
Balance at end of year	(₱422)	₱8	₱2	(₱412)

17. Cost of Goods Sold

	2009	2008	2007
Inventories (see Notes 8, 23 and 26)	**₱155,983**	₱259,391	₱191,613
Depreciation and amortization (see Note 20)	**2,505**	2,172	1,538
Employee costs (see Note 19)	**519**	519	463
Others – net (see Notes 8 and 26)	**2,576**	2,224	1,673
	₱161,583	₱264,306	₱195,287

Distribution or transshipment costs included as part of inventories amounted to ₱3,747, ₱3,801 and ₱3,536 in 2009, 2008 and 2007, respectively.

18. Selling and Administrative Expenses

	2009	2008	2007
Employee costs (see Note 19)	**₱1,628**	₱1,375	₱1,481
Purchased services and utilities	**1,332**	1,202	994
Depreciation and amortization (see Note 20)	**1,081**	1,070	978
Maintenance and repairs	**522**	482	530
Rent (see Notes 23 and 24)	**479**	411	395
Advertising	**222**	235	495
Materials and office supplies	**212**	181	188
Taxes and licenses	**136**	136	120
Impairment loss on trade and other receivables (see Note 7)	**58**	71	50
Expenses related to oil spill incident in Guimaras (see Note 35e)	**–**	–	15
Others (see Note 11)	**81**	59	79
	₱5,751	₱5,222	₱5,325

Selling and administrative expenses include research and development costs amounting to ₱10, ₱9 and ₱11 in 2009, 2008 and 2007, respectively.

19. Employee Costs

	2009	2008	2007
Salaries, wages and other employee costs (see Note 23)	**₱1,773**	₱1,726	₱1,847
Pension costs – defined benefit plan (see Note 25)	**319**	118	51
Pension costs – defined contribution plan	**55**	50	46
Other long-term employee benefits – interest subsidy	**–**	–	–
	₱2,147	₱1,894	₱1,944

The above amounts are distributed as follows:

	2009	2008	2007
Cost of goods sold (see Note 17)	**₱519**	₱519	₱463
Selling and administrative expenses (see Note 18)	**1,628**	1,375	1,481
	₱2,147	₱1,894	₱1,944

20. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	2009	2008	2007
Cost of goods sold –			
Property, plant and equipment (see Notes 9 and 17)	**₱2,505**	₱2,172	₱1,538
Selling and administrative expenses (see Note 18):			
Property, plant and equipment (see Note 9)	**1,067**	1,056	964
Investment properties (see Note 10)	**14**	14	14
	1,081	1,070	978
	₱3,586	₱3,242	₱2,516

21. Interest Expense, Interest Income and Other Income (Charges)

	2009	2008	2007
Interest expense:			
Short-term loans (see Note 12)	**₱2,214**	₱2,614	₱990
Long-term debt (see Note 14)	**1,282**	713	218
Bank charges	**649**	621	436
Accretion on ARO (see Note 15)	**60**	40	36
Accretion on debt issue costs (see Note 14)	**28**	50	45
Product borrowings	**13**	21	17
Others	**5**	121	72
	₱4,251	₱4,180	₱1,814
Interest income:			
Money market placements (see Note 4)	**₱92**	₱225	₱205
AFS investments (see Note 6)	**51**	42	46
Trade receivables (see Note 7)	**38**	54	69
Product loaning	**7**	8	5
Cash in banks (see Note 4)	**5**	9	8
Others	**12**	16	11
	₱205	₱354	₱344

	2009	2008	2007
Other income (charges):			
Foreign currency gains (losses) – net	**₱146**	(₱1,707)	₱2,283
Commodity hedging gains (losses) – net (see Note 31)	**461**	1,159	(806)
Mark-to-market gain (losses) (see Note 31)	**(409)**	179	(603)
Rent (see Notes 10 and 24)	**346**	357	325
Changes in fair value of financial assets at FVPL (see Notes 5 and 22)	**22**	(67)	49
Insurance claims	**172**	33	16
Gain on settlement of ARO (see Note 15)	**14**	8	–
Miscellaneous	**(155)**	(77)	(352)
	₱597	(₱115)	₱912

Share in the net income (loss) of PDSI amounting ₱0.51, ₱0.41 and (₱0.42) in 2009, 2008 and 2007, respectively, is classified under "Other Income (Charges) – Miscellaneous" account.

22. Income Taxes

The components of tax expense (benefit) as reported in the consolidated statement of income are as follows:

	2009	2008	2007
Current tax expense:			
Final tax	**₱32**	₱52	₱45
Regular corporate income tax (RCIT)	**46**	65	3,120
Minimum corporate income tax (MCIT)	**175**	123	–
	₱253	₱240	₱3,165
Deferred tax expense (benefit):			
Relating to origination and reversal of temporary differences	**₱1,962**	(₱1,090)	(₱170)
Change in tax rate to 30%	**–**	213	(40)
MCIT	**(175)**	(123)	–
Net operating loss carry-over (NOLCO)	**(549)**	(1,113)	–
	1,238	(2,113)	(210)
Tax expense (benefit)	**₱1,491**	(₱1,873)	₱2,955

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

	2009	2008	2007
Income tax computed at statutory tax rates of 30% in 2009 and 35% in 2008 and 2007	**₱1,724**	(₱2,028)	₱3,273
Additions (reductions) resulting from:			
Change in tax rate	**–**	400	(39)
Income subject to ITH (see Note 32)	**(162)**	(171)	(163)
Interest income subjected to lower final tax and others	**(50)**	(96)	(101)
Nontaxable income	**(37)**	(52)	(45)
Nondeductible expense	**14**	17	17
Nondeductible interest expense	**9**	34	30
Changes in fair value of financial assets at FVPL (see Note 21)	**(7)**	(23)	(17)
Tax expense (benefit)	**₱1,491**	(₱1,873)	₱2,955

The significant components of deferred tax assets and liabilities are as follows:

	Consolidated Statements of								
	Financial Position			Income			Comprehensive Income		
	2009	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Deferred tax assets:									
Rental	**₱170**	₱164	₱164	**(₱6)**	₱-	(₱1)	**₱-**	₱-	₱-
Inventory differential	**-**	673	414	**673**	(259)	(290)	**-**	-	-
ARO	**144**	116	97	**(28)**	(19)	(16)	**-**	-	-
Unrealized foreign exchange gains (losses) – net	**20**	-	-	**(20)**	-	-	**-**	-	-
Various allowances, accruals and others	**77**	981	634	**904**	(347)	(178)	**-**	-	-
NOLCO	**1,662**	1,113	-	**(549)**	(1,113)	-	**-**	-	-
MCIT	**298**	123	-	**(175)**	(123)	-	**-**	-	-
	2,371	3,170	1,309	**799**	(1,861)	(485)	**-**	-	-
Deferred tax liabilities:									
Excess of double-declining over straight-line method of depreciation and amortization	**1,431**	1,250	1,195	**181**	55	(75)	**-**	-	-
Inventory differential	**413**	-	-	**413**	-	-	**-**	-	-
Capitalized taxes and duties on inventories deducted in advance	**360**	347	334	**13**	13	(54)	**-**	-	-
Unrealized foreign exchange gains (losses) – net	**-**	32	320	**(32)**	(288)	208	**-**	-	-
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**532**	572	570	**(40)**	2	211	**-**	-	-
Net pension plan asset	**135**	90	153	**(96)**	(35)	(15)	**141**	(28)	38
Unrealized fair value gains (losses) on AFS investments	**7**	2	4	**-**	-	-	**5**	(2)	(5)
	2,878	2,293	2,576	**439**	(253)	275	**146**	(30)	33
Deferred tax expense (benefit)				**₱1,238**	(₱2,113)	(₱210)	**₱146**	(₱30)	₱33
Net deferred tax assets (liabilities)	**(₱507)**	₱877	(₱1,267)						

Net deferred taxes of individual companies are not allowed to be offset against net deferred tax liabilities of other companies, or vice versa, for purposes of consolidation. Net deferred tax assets of the subsidiaries, namely, PMC amounted to ₱7 as of December 31, 2009 and NVRC and Petrogen amounted to ₱1 as of December 31, 2007, without right of offset are presented in the consolidated statements of financial position. On December 31, 2008, net deferred tax liability of NVRC, Petrogen and PFC, without right of offset, amounted to ₱8.

The Company is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations. MCIT in 2009 and 2008, included as part of "Deferred Tax Assets" account amounted to ₱175 and ₱123, respectively. No MCIT was reported in 2007 as the RCIT amount was higher than MCIT in that year. The Company's NOLCO and MCIT in 2009 and 2008 can be applied against the taxable income and tax due until 2012 and 2011, respectively.

On July 6, 2008, Republic Act (RA) 9504 was approved giving corporate taxpayers an option to claim itemized deduction OSD equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. For 2009 and 2008 the Company opted to continue claiming itemized standard deductions.

On October 18, 2005, RA No. 9337 became effective, which included, among others, provisions for: (a) the increase in corporate income tax rate from 32% to 35% effective November 1, 2005 and later on reducing the rate to 30% effective January 1, 2009; and, (b) the change in non-allowable deduction for interest expense from 38% to 42% effective November 1, 2005 and 33% beginning January 1, 2009.

23. Related Party Transactions

Petron and Saudi Aramco have a term contract to purchase and supply, respectively, 90% of Petron's monthly crude oil requirements for a period of one year starting October 28, 2008 to October 27, 2009 and renewable every year unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of Petron for such purchases are shown as part of "Liabilities for Crude Oil and Petroleum Product Importation" account in the consolidated statements of financial position.

Saudi Aramco is the ultimate parent of AOC, the Company's major stockholder until July 29, 2008, while PNOC was also a major stockholder until December 24, 2008 (see Note 1). As of December 31, 2008, total current trade payables to and current trade receivables from PNOC amounted to ₱1 and ₱53, respectively, and total current nontrade receivables from Saudi Aramco amounted to ₱2.

Petron has long-term lease agreements with PNOC covering a period from September 1993 to August 2018 on certain lots where the Company's refinery and other facilities are located. Lease charges on refinery facilities escalate at 2% a year, subject to increase upon re-appraisal (see Note 24).

Total compensation and benefits of key management personnel included as part of "Employee Costs" account consist of the following (see Note 19):

	2009	2008	2007
Salaries and other short-term employee benefits	**₱262**	₱222	₱251
Pension costs – defined contribution plan paid	**9**	8	7
Post-employment benefits – defined benefit plan	**234**	70	39
	₱505	₱300	₱297

24. Operating Lease Commitments

Company as Lessee
The Company entered into commercial leases on certain parcels of land for its refinery and certain service stations (see Notes 18 and 23). These leases have an average life of between one to sixteen years with renewal options included in the contracts. There are no restrictions placed upon the Company by entering into these leases. The lease agreements include upward escalation adjustment of the annual rental rates.

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

	2009	2008	2007
Within one year	**₱596**	₱506	₱450
After one year but not more than five years	**2,207**	2,189	2,095
After five years	**5,744**	2,126	2,241
	₱8,547	₱4,821	₱4,786

Company as Lessor
The Company has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (see Note 10 and 21). The non-cancellable leases have remaining terms of between three to fourteen years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

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

	2009	2008	2007
Within one year	**₱231**	₱247	₱256
After one year but not more than five years	**240**	277	318
After five years	**79**	93	114
	₱550	₱617	₱688

25. Pension Plan

The succeeding tables summarize the components of net pension costs under a defined benefit plan recognized in the consolidated statements of income and the funding status and amounts of pension plan recognized in the consolidated statements of financial position.

Net Pension Costs – defined benefit plan (see Note 19)

	2009	2008	2007
Current service cost	**₱160**	₱191	₱198
Interest cost on benefit obligation	**331**	319	274
Expected return on plan assets	**(201)**	(392)	(421)
Curtailment loss (gain)	**29**	–	–
Net pension costs	**₱319**	₱118	₱51
Actual return on plan assets	**₱675**	₱361	₱330

Actuarial Gain (Loss) Recognized in Other Comprehensive Income

	2009	2008	2007
Actuarial gain (loss) for the year (present value of obligation)	**(₱4)**	₱661	₱218
Actuarial gain(loss) for the year (plan assets)	**475**	(753)	(92)
Actuarial gain due to limit on recognized plan assets	**–**	–	–
Net actuarial gain (loss) recognized	**₱471**	(₱92)	₱126

Net Pension Asset

	2009	2008	2007
Fair value of plan assets	**₱3,896**	₱3,832	₱4,360
Defined benefit obligation	**3,445**	3,533	3,851
Pension asset	**451**	299	509
Less unrecognized assets due to limit	**–**	–	–
Net pension asset recognized (see Note 11)	**₱451**	₱299	₱509

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

	2009	2008	2007
Opening defined benefit obligation	**₱3,533**	₱3,851	₱3,783
Interest cost	**331**	319	274
Current service cost	**160**	191	198
Benefits paid	**(240)**	(167)	(186)
Actuarial loss (gains) on obligation	**3**	(661)	(218)
Effect of curtailment	**(342)**	–	–
Closing defined benefit obligation	**₱3,445**	₱3,533	₱3,851

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

	2009	2008	2007
Opening fair value of plan assets	**₱3,832**	₱4,360	₱4,217
Expected return	**200**	392	421
Benefits paid	**(611)**	(167)	(186)
Actuarial gain (losses) on plan assets	**475**	(753)	(92)
Closing fair value of plan assets	**₱3,896**	₱3,832	₱4,360

The Company will temporarily suspend contribution to the retirement fund until such time that another valuation is undertaken.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2009	2008	2007
Government securities	**44%**	56%	47%
Stocks	**32%**	23%	34%
Real estate	**15%**	13%	6%
Cash	**1%**	1%	5%
Others	**8%**	7%	8%
	100%	100%	100%

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

As of December 31, 2009, 2008 and 2007, the principal assumptions used in determining obligations for the Company's defined benefit pension plan are shown below.

	2009	2008	2007
Discount rate	**8%**	10%	10%
Expected rate of return on plan assets	**8%**	6%	6%
Future salary increases	**6%**	8%	8%

The average attained age, years of service and expected future service years considered in the pension cost determination are 40,14 and 15 years in 2009, and 41, 15 and 15 years for both 2008 and 2007.

Amounts for the current and previous four periods are as follows:

	2009	2008	2007	2006	2005
Defined benefit obligation	**₱3,445**	₱3,533	₱3,851	₱3,783	₱2,330
Fair value of plan assets	**3,896**	3,832	4,360	4,217	3,737
Surplus	**₱451**	₱299	₱509	₱434	₱1,407

Experience adjustments on present value of obligation amounted to ₱70, (₱240), ₱368 and ₱151 in 2009, 2008, 2007 and 2006, respectively. There were no experience adjustments on plan assets reported in 2009, 2008, 2007 and 2006.

26. Significant Agreements

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

Royalty expense amounting to ₱0.08, ₱0.3 and ₱1.1 in 2009, 2008 and 2007, respectively, are included as part of "Cost of Goods Sold – Others" account in the consolidated statements of income (see Note 17).

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

As of December 31, 2009, the following are the fuel supply contracts granted to Petron:

Bid Date	**Date of Award**	**Contract Duration**	**DFO (in KL)**	**IFO (in KL)**	**DFO (in)**	**IFO (in)**
Dec 24, 2008	Jan 12, 2009	Jan to Dec 2009	4,303	19,523	149	513
Dec 24, 2008	Feb 11, 2009	Jan to Dec 2009	–	202,801	–	5,161
Feb 3, 2009	Feb 25, 2009	Feb to Apr 2009	1,787	8,043	46	130
Feb 3, 2009	Apr 7, 2009	Feb to Apr 2009	53,452	78,625	1,326	1,278
Apr 28, 2009	Jul 16, 2009	May to Dec 2009	31,746	31,421	688	528
Apr 28, 2009	Jul 16, 2009	May to Dec 2009	53,371	218,547	1,233	3,610
Jul 22, 2009	Jul 31, 2009	Aug to Dec 2009	690	–	19	–
Oct 29, 2009	Dec 10, 2009	Nov to Dec 2009	55,120	43,895	1,703	1,145

Sales from the fuel supply contract transactions amounted to ₱10,780, ₱15,054 and ₱12,583 in 2009, 2008 and 2007, respectively.

In the bidding for the Supply & Delivery of Oil-Based Fuel to NPC, IPPs and Small Power Utilities Group (SPUG) Plants/Barges for the period January to December 2009 that was held on January 12, 2009, Petron won to supply a total of 4,303 kilo-liters (KL) of diesel fuel and 19,523 KL of bunker fuel worth ₱149 and ₱513, respectively. All 2009 contracts that were not fully lifted by December 31, 2009 were extended up to March and June 2010. For bidding held in February 2010, Petron won a total of 198,195 KL of Oil – Based Fuel and 161,468 KL of diesel fuel.

Toll Service Agreement with Innospec Limited. PFC signed an agreement with Innospec Limited, a leading global fuel additives supplier, in December 2006. Under the agreement, PFC shall be the exclusive toll blender of Innospec's fuel additives sold in the Asia-Pacific region consisting of the following countries and territories: Australia, New Zealand, China, Indonesia, India, Pakistan, South Korea, Taiwan, Japan, Thailand, Vietnam, Malaysia, Philippines and Singapore.

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

Actual tolling services started in 2008 on which total revenue amounting to ₱7 was recognized in the consolidated statement of income. For 2009, total revenue from the tolling service of PFC amounted to ₱52.

27. Earnings (Loss) Per Share

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

	2009	2008	2007
Net income (loss) attributable to equity holders of the parent	**₱4,238**	(₱3,978)	₱6,377
Weighted average number of shares (see Note 16)	**9,375,104,497**	9,375,104,497	9,375,104,497
Basic and diluted earnings (loss) per share	**₱0.45**	(₱0.42)	₱0.68

The Company has no dilutive potential common shares outstanding as of December 31, 2009, 2008 and 2007.

28. Supplemental Disclosure on Cash Flow Information

Changes in operating assets and liabilities:

	2009	2008	2007
Decrease (increase) in assets:			
Trade and other receivables	**(₱5,746)**	₱5,394	(₱1,350)
Inventories	**4,964**	(2,962)	(3,943)
Other current assets	**(1,094)**	(1,342)	(3,695)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum product importation	**(1,353)**	(3,926)	5,530
Trade and other payables	**496**	(259)	744
	(2,733)	(3,095)	(2,714)
Addition (reversal) of allowance for impairment of receivables, inventory decline and/or obsolescence and others	**(2,169)**	2,444	77
	(₱4,902)	(₱651)	(₱2,637)

During the year, the Parent Company transferred from Other Current Assets ₱8,500 of its claims for refund on input VAT arising from crude and product importations, which are all classified as zero-rated, to Government Receivables (see Notes 7 and 11) as it has already been issued tax credit certificates by the Bureau of Internal Revenue, Bureau of Customs and the Department of Finance for those claims.

29. Capital Management Objectives, Policies and Procedures

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

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

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

	2009	2008	2007
Total assets	**₱113,193**	₱111,798	₱104,474
Total liabilities	**75,658**	78,895	66,686
Total equity	**37,535**	32,903	37,788
Debt to equity ratio	**2.0:1**	2.4:1	1.8:1

These ratios are compliant with the existing covenant for bank loans (see Note 14).

30. Financial Risk Management Objectives and Policies

The Company's principal financial instruments include bank loans, trade and other receivables, 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.

In 2007, the Company availed of the transitional relief to apply PFRS 7, Financial Instruments: Disclosures. In 2008, certain disclosures relating to 2007, to comply with the requirements of PFRS 7, have been improved or expounded unless impracticable. This is to align all relevant disclosures in all the years presented.

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, Senior Vice Presidents and Vice Presidents of the Company, reviews the adequacy of risk management policies.

b. The Financial Planning Unit, 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 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:

h. 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.

i. 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 December 31, 2009, 2008 and 2007:

	2009	2008	2007
	In USD	In USD	In USD
Financial assets	**250**	107	182
Financial liabilities	**(128)**	(167)	(357)
Net foreign exposure	**122**	(60)	(175)

The exchange rates used to restate the US dollar-denominated financial assets and liabilities stated above are ₱46.20 in 2009, ₱47.52 in 2008 and ₱41.28 in 2007.

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 12 months for the years ended December 31, 2009, December 31, 2008 and December 31, 2007, estimated at 95% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held at the end of each reporting period, 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:

	2009	2008	2007
Increase/decrease in exchange rates	**12.72%**	18.36%	15.23%
Increase/decrease in pretax income	**(₱717)**	₱523	₱1,100

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

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 years 2009, 2008 and 2007. 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 the end of each reporting period. All other variables are held constant.

Effect of changes in interest rates on Philippine peso and US dollar-denominated loans with floating interest rates:

	2009		2008		2007	
	PHP	**USD**	PHP	USD	PHP	USD
Increase/decrease in interest rates for deposits	**(44.35%)**	**(12.8%)**	(70.47%)	(22.14%)	(102.04%)	(33.13%)
Increase/decrease in interest rates for short-term loans	**33.17%**	**-**	41.36%	30.79%	108.52%	-
Increase/decrease in interest rates for long-term loans	**35.06%**	**-**	52.93%	49.67%	71.73%	21.01%
Increase/decrease in pretax income	**₱723**	**(₱13)**	₱1,782	₱26	₱1,159	₱5

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

	2009	2008	2007
Cash in bank and cash equivalents (see Note 4)	**₱9,884**	₱8,291	₱6,870
Short-term loans (see Note 12)	**42,744**	53,979	33,784
Long-term loans (see Note 14)	**1,333**	2,000	2,000

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

Credit Risk

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

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

	2009	2008	2007
Cash in bank and cash equivalents (see Note 4)	**₱9,884**	₱8,291	₱6,870
Trade and other receivables (see Note 7)	**29,696**	16,875	17,869
Long-term receivables (see Note 11)	**189**	202	77
Derivative assets (see Note 11)	**39**	55	100
Total	**₱39,808**	₱25,423	₱24,916

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

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

Collaterals. To the extent practicable, the Company also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (see Note 7). Among the collaterals held are real estate mortgages, bank guarantees, letters of credit and cash bonds valued at ₱2,624, ₱2,600 and ₱2,300 as of December 31, 2009, 2008 and 2007, respectively. These securities may only be called on or applied upon default of customers.

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

The credit risk exposure of the Company based on TAR as of December 31, 2009, 2008 and 2007 are shown below (see Note 7):

	Neither Past Due Nor Impaired	**Past Due but Not Impaired**	**Impaired**	**Total**
Dec. 31, 2009				
Reseller	**₱44**	**₱54**	**₱28**	**₱126**
Lubes	**238**	**39**	**17**	**294**
Gasul	**656**	**164**	**48**	**868**
Industrial	**6,823**	**1,388**	**629**	**8,840**
Others	**2,789**	**144**	**58**	**2,991**
Total TAR	**₱10,550**	**₱1,789**	**₱780**	**₱13,119**

	Neither Past Due Nor Impaired	Past Due but Not Impaired	Impaired	Total
Dec. 31, 2008				
Reseller	₱28	₱74	₱4	₱106
Lubes	150	33	17	200
Gasul	363	190	32	585
Industrial	4,531	1,043	605	6,179
Others	101	171	60	332
Total TAR	₱5,173	₱1,511	₱718	₱7,402
Dec. 31, 2007				
Reseller	₱186	₱140	₱9	₱335
Lubes	139	71	16	226
Gasul	448	245	22	715
Industrial	6,001	2,158	579	8,738
Others	2,527	213	61	2,801
Total TAR	₱9,301	₱2,827	₱687	₱12,815

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

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

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

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

Below is the credit quality profile of the Company's TAR as of December 31, 2009, 2008 and 2007:

	Trade Accounts Receivables per Class			
	Class A	**Class B**	**Class C**	**Total**
Dec. 31, 2009				
Reseller	**(₱206)**	**₱313**	**₱21**	**₱128**
Lubes	**67**	**190**	**38**	**295**
Gasul	**323**	**319**	**226**	**868**
Industrial	**2,497**	**4,917**	**1,426**	**8,840**
Others	**2,506**	**464**	**18**	**2,988**
Total	**₱5,187**	**₱6,203**	**₱1,729**	**₱13,119**
Dec. 31, 2008				
Reseller	(₱214)	₱319	₱1	₱106
Lubes	128	41	31	200
Gasul	171	155	259	585
Industrial	2,593	2,631	955	6,179
Others	(126)	315	143	332
Total	₱2,552	₱3,461	₱1,389	₱7,402
Dec. 31, 2007				
Reseller	(₱79)	₱384	₱30	₱335
Lubes	141	44	41	226
Gasul	211	175	329	715
Industrial	3,429	3,979	1,330	8,738
Others	2,305	272	224	2,801
Total	₱6,007	₱4,854	₱1,954	₱12,815

Liquidity Risk

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

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

Below are the contractual maturities of Company's financial liabilities as of December 31, 2009, 2008 and 2007. These amounts reflect the gross cash flows that may differ from the carrying values of the liabilities at the end of the reporting period.

	2009				
	Within 3 Months	**After 3 months but not more than 6 months**	**After 3 months but not more than 12 months**	**After 1 year but not more than 5 years**	**Total**
Current financial liabilities:					
Short-term loans	**₱42,837**	**₱–**	**₱–**	**₱–**	**₱42,837**
Liabilities for crude oil and petroleum product importation	**7,529**	**–**	**–**	**–**	**7,529**
Trade and other payables (see Note 13)	**4,051**	**11**	**10**	**13**	**4,085**
Current portion of long-tem debt	**700**	**743**	**1,439**	**-**	**2,882**
Total current financial liabilities	**55,117**	**754**	**1,450**	**13**	**57,333**
Noncurrent financial liabilities:					
Cash bonds (See Note 15)	**–**	**–**	**–**	**245**	**245**
Long-term debt	**–**	**–**	**–**	**17,170**	**17,170**
Total noncurrent financial liabilities	**–**	**–**	**–**	**17,415**	**17,415**
Total financial liabilities	**₱ 42,744**	**₱754**	**₱1,450**	**₱17,428**	**₱74,748**

	2008				
Current financial liabilities:					
Short-term loans	₱53,482	₱923	₱–	₱–	₱54,405
Liabilities for crude oil and petroleum product importation	8,907	–	–	–	8,907
Trade and other payables (see Note 13)	4,147	14	–	–	4,161
Current portion of long-tem debt	525	518	1,022	–	2,065
Total current financial liabilities	67,061	1,455	1,022	–	69,538
Noncurrent financial liabilities:					
Cash bonds (See Note 15)	–	–	–	205	205
Long-term debt	–	–	–	10,111	10,111
Total noncurrent financial liabilities	–	–	–	10,316	10,316
Total financial liabilities	₱67,061	₱1,455	₱1,022	₱10,316	₱79,854

	2007				
	Within 3 Months	After 3 months but not more than 6 months	After 3 months but not more than 12 months	After 1 year but not more than 5 years	Total
Current financial liabilities:					
Short-term loans	₱33,599	₱360	₱–	₱–	₱33,959
Liabilities for crude oil and petroleum product importation	12,873	–	–	–	12,873
Trade and other payables (see Note 13)	4,103	–	–	–	4,103
Current portion of long-tem debt	102	802	1,385	–	2,289
Total current financial liabilities	50,677	1,162	1,385	–	53,224
Noncurrent financial liabilities:					
Cash bonds (See Note 15)	–	–	–	173	173
Long-term debt	–	–	–	13,105	13,105
Total noncurrent financial liabilities	–	–	–	13,278	13,278
Total financial liabilities	₱50,677	₱1,162	₱1,385	₱13,278	₱66,502

Commodity Price Risk

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

Other Market Price Risk

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

31. Financial Instruments

Derivative Instruments

The Parent Company's derivative transactions are intended as economic hedge of well-defined foreign currency and commodity price risks. The Parent Company opted to adopt non-hedge accounting treatment for all its derivative transactions (including embedded derivatives).

Freestanding Derivatives – Commodity Risk Management

Hedge Authorities

The following hedge authorities are in place to guard against risks arising from volatility of crude and product prices:

- *Margin Protection.* The Company has authority to hedge the margins of both domestic sales and exports that are priced based on MOPS. The crack spread, or the difference between the product and crude prices, are hedged for jet (MOPS Kerosene – Dubai) and fuel oil (MOPS HSFO 180 – Dubai), and occasionally gasoil (MOPS Gasoil 0.5%-Dubai), mostly through swaps. The cost base of the Company's products is that of the crude oil, most of which is supplied by Saudi Aramco and is priced based on Dubai/Oman crude price. On the other hand, the selling price of the products is based on MOPS. Under the crack spread swap, the Company and its counterparties agree to a monthly exchange of cash settlements based on a specified reference price, depending on the commodity being hedged.

  For the product portion of the crack spread swap that hedges the price risks on the products, the Company acts as the floating rate payer and the reference price index is the monthly MOPS (HSFO 180 CST for IFO, Kerosene for jet oil and Gasoil 0.5% for gasoil). For the Dubai portion that hedges the price risks on crude oil, the Company acts as the fixed rate payer and the reference price index is the monthly average for Platt's Dubai Crude. The swap agreements effectively hedge the Company's margin on its products.

  The Company is also allowed to hedge full barrel margins, based on its programmed production. The different main product crack spreads are based on MOPS-Dubai, as follows:

Product	% Product Yield	Crack Spread
Gasoline	will vary depending on programmed crudes	MOPS Mogas 95-Dubai
Jet/Kero	will vary depending on programmed crudes	MOPS Kerosene-Dubai
Diesel	will vary depending on programmed crudes	MOPS Gasoil 0.5%S-Dubai
Fuel Oil	will vary depending on programmed crudes	MOPS HSFO 180-Dubai

In September 2007, Petron concluded with BNP Paribas and Citibank NA Sydney a Kerosene/Jet A-1 crack swap with an aggregate notional quantity of 50 MB at a fixed price per barrel of US$20.15 and US$20.00, respectively. In October 2007, another 75 MB of Kerosene/Jet A-1 crack swap was executed with Lehman Brothers, J. Aron, and JP Morgan at a fixed price per barrel of US$20.26, US$20.30, and US$21.00, respectively. As of December 31, 2007, the estimated net payout cost for these outstanding Kerosene/Jet A-1 crack swaps amounted to ₱12.

As of December 31, 2007, there were no outstanding IFO-Dubai crack spread swaps. Meanwhile, on January 22, 2008, Petron concluded with BNP Paribas a Jet/Dubai crack swap for the third quarter of 2008 for a volume of 10,000 barrels per month or 30,000 barrels in total.

In December 2008, IFO-Dubai crack swaps for the first quarter of 2009 with total notional quantity of 575 MB were concluded with various counterparties namely J. Aron, Standard Chartered, Morgan Stanley and BP Singapore. Average fixed price per barrel were minus US$8.81, US$8.87 and US$9.09 for January, February and March 2009 hedges, respectively. As of December 31, 2008, estimated net payout for these outstanding IFO-Dubai Crack Swaps totaled ₱43.

In December 2009, the hedging instruments used by Petron are Fuel Oil Crack, Three-Way-Option, Buy Dubai Swap, Jet Crack and Bullet Swap with notional quantity of 2,600,000 bbls. The estimated net receipt of these outstanding hedges as of December 31, 2009 is ₱627 and will be settled to various Counterparties commencing January to December 2010.

Jet Cracks used as a hedging instrument with outstanding notional quantity of 120 MB as of December 31, 2009, had fixed spread of US$11.55. Calculation period is from January to December 2010 contracted from J.P. Morgan alone. The estimated net payout for these transactions is ₱2.

- *Inventory Loss Protection (SELL).* This is intended to address inventory losses brought about by abrupt and significant downward price swings. Dubai was used as a proxy hedge for the products since prices of crude and products generally move in the same direction. Moreover, not all products can be hedged as some products are not actively traded in the paper market. Petron was the Dubai fixed price seller.

  As of December 31, 2007, the Company has outstanding proxy hedge with an aggregate notional quantity of 650 MB and contracted fixed price per barrel ranging from US$72 to US$87; the estimated net payout cost amounted to ₱264.

  Total notional quantity of outstanding Sell swaps were at 3 MMB, 1.45MB pertained to December 2008 hedges and 1.55MB pertained to January 2009 hedges. Average strike price was at US$48.63 per barrel and were contracted with BNP Paribas, BP Singapore, Citibank, J.P Morgan, MERM and Standard Chartered. As of December 31, 2008, estimated net receipts from these transactions totaled US$11.7 or ₱554.1 translated using year-end closing rate.

- *Protection Against Rising Prices (BUY).* This authority is intended to cushion the effect on the Company's working capital and margins if the increase in costs is not fully recovered through price adjustments. Dubai will be used, with Petron as the fixed price buyer.

  In December 2008, Petron executed 150MB Buy Swap with J.P. Morgan at an average strike price of US$46.13 per barrel for January 2009 hedges. Estimated net receipts from these outstanding transactions amounted to ₱2.6.

  The notional quantity of outstanding Buy Dubai Swap was at 25 MB with average strike price of $76. This transaction is due in January 2010 while settlement is 14 days after the following month. As of December 31, 2009, estimated net receipt from this transaction totaled ₱2.

- *Foreign Exchange Loss Protection.* The Parent Company also enters into deliverable and non-deliverable short-term currency forward contracts to hedge its foreign currency exposure on crude oil importations.

  As of December 31, 2008, Petron has outstanding currency forwards of US$80.5 at an average spot rate and forward rate of ₱47.28 and ₱47.46 per US dollar. The net fair value gain on these outstanding transactions amounted to ₱18.60. There were no outstanding currency forward contracts as of December 31, 2007.

  The 25MB Three-Way Option was executed in October 2008 for December 2008 but will be settled in January 2009. Receipt from this transaction amounted to US$0.125 or ₱5.9 using the year-end closing exchange rate of ₱47.52 per dollar with the following strike prices per barrel: sell put of US$53.00, buy put of US$58.00 and sell call of US$63.00.

  Meanwhile, the 225 MB Three-Way Option due in December 2009 but settlement is on January 2010 has a net receipt of ₱81. Hedges for the 3rd and 4th quarters of 2010 with notional quantity of 2,100 MB has an estimated net receipt of ₱541.

  Freight Cost Protection. The BEC approved in October 2009 authority to hedge the Company's crude freight cost. Considering that Petron charters one to two VLCCs (Very Large Crude Carriers) a month to transport Middle East crude to its refinery, this would allow Petron to lock in target freight rates if the opportunity arises.

  Petron has the authority to hedge up to a maximum of 100% of crude and product imports. For freight hedging, maximum hedge volume is equivalent to six VLCCs a year (at 2 million barrels per VLCC). A yearly limit of US$6 for option premiums remain in place.

Instruments

The use of new instruments was likewise approved by the BEC, namely:

- *Extendible/Cancellable Swap (Sell.)* A type of swap wherein one party has the option to extend the swap for an additional period beyond the original maturity date or cancel the swap after a guaranteed period. By monetizing time flexibility, an extendible/

cancellable swap can lock in a swap at a level significantly better than the traditional swap. This structure can be used only for a Sell position.

- *Put/Call Spread.* A double option spread structure that gives limited gains or losses. Unlike a zero-cost collar which has a Call and Put option on opposite legs, the Call / Put spread is a collar with similar legs either both Call options or both Put options.

In addition, the Commodity Risk Management Committee approved the use of bullet swap, an over-the counter (OTC), futures look-alike instrument, with a one-day pricing period. The products available would be those traded in the exchange, i.e., ICE Brent, Nymex WTI. Settlement date for the bullet swap is one day prior to the futures' settlement date, with payment normally due 14 calendar days after the settlement date.

Embedded Derivatives.

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

Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative transactions in 2009, 2008 and 2007 are as follows:

	Mark-to-market Gain (Loss)
Fair values at January 1, 2009	**₱55**
Net changes in fair value during the year (see Note 21)	**(409)**
Fair value of settled instruments	**391**
Balance at December 31, 2009	**₱37**
Fair values at January 1, 2008	₱98
Net changes in fair value during the year (see Note 21)	179
Fair value of settled instruments	(222)
Balance at December 31, 2008	₱55
Fair values at January 1, 2007	(₱6)
Net changes in fair value during the year (see Note 21)	(603)
Fair value of settled instruments	707
Balance at December 31, 2007	₱98

Comparison of Carrying Amounts and Fair Values

The carrying amounts and estimated fair values of the categories of financial assets and liabilities presented in the consolidated statements of financial position are shown below:

	2009		2008		2007	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):						
Cash and cash equivalents (see Note 4)	**₱12,985**	**₱12,985**	₱12,827	₱12,827	₱9,732	₱9,732
Trade and other receivables (see Note 7)	**29,696**	**29,696**	16,875	16,875	17,869	17,869
Long-term receivables (see Note 11)	**189**	**189**	202	202	77	77
Loans and receivables	**42,870**	**42,870**	29,904	29,904	27,678	27,678
AFS investments (see Note 6)	**1,355**	**1,355**	682	682	632	632
Financial assets at FVPL (see Note 5)	**169**	**169**	161	161	229	229
Derivative assets (see Note 11)	**39**	**39**	55	55	100	100
FA at FVPL	**208**	**208**	216	216	329	329
Total financial assets	**₱44,430**	**₱44,433**	₱30,802	₱30,802	₱28,639	₱28,639

	2009		2008		2007	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities (FL):						
Short-term loans (see Note 12)	**₱42,744**	**₱42,744**	₱53,979	₱53,979	₱33,784	₱33,784
Liabilities for crude oil and petroleum product importation	**7,529**	**7,529**	8,907	8,907	12,873	12,873
Trade and other payables (see Note 13)	**4,087**	**4,087**	4,146	4,146	4,103	4,103
Cash bonds (see Note 15)	**245**	**231**	205	192	173	163
Long-term debt including current portion (see Note 14)	**18,892**	**14,970**	10,251	9,075	12,780	11,163
Cylinder deposits (see Note 15)	**200**	**200**	201	201	243	243
Other noncurrent liabilities (see Note 15)	**66**	**66**	54	54	37	37
FL at amortized cost	**73,763**	**69,827**	77,743	76,554	63,993	62,366
Derivative liabilities (see Note 13)						
FL at FVPL	**–**	**–**	–	–	2	2
Total financial liabilities	**₱73,763**	**₱69,827**	₱77,743	₱76,554	₱63,995	₱62,368

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

The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The table below presents the hierarchy of fair value measurements used by the Company.

	Level 1	Level 2	Level 3	Total
December 31, 2009				
FVPL (see Note 5)	₱169	₱–	₱–	₱169
Derivative Assets (see Note 11)	–	39	–	39
AFS Investments (see Note 6)	1,198	157	–	1,355
Total	₱1,367	₱196	₱–	₱1,563

The disclosure on fair value hierarchy is only presented for December 31, 2009 as comparative information is not required in the first year of application of the amended PFRS 7 (see Note 2).

32. Registration with the BOI

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

a. ITH for five years without extension or bonus year from January 2005 for the Project and March 2005 for LVN Isomerization or actual start of commercial operations, whichever is earlier;

b. Duty of three percent and VAT on imported capital equipment and accompanying spare parts;

c. Tax credit on domestic capital equipment on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart;

d. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse;

e. Exemption from real property tax on production equipment or machinery; and,

f. Exemption from contractor's tax.

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

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

a. ITH (1) for four years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Mixed Xylene subject to base figure of 120,460 metric tons per year representing Petron's highest attained production volume for the last three (3) years; (2) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (3) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene;

b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for ten years from start of commercial operations;

c. Simplification of custom procedures;

d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Custom rules and regulations provided firm exports at least 70% of production output;

e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten year period from date of registration;

f. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond;

g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% of production; and,

h. The Company may qualify to import capital equipment, spare parts, and accessories at zero duty from date of registration up to June 5, 2006 pursuant to Executive Order (EO) No. 313 and its Implementing Rules and Regulations.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit
On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment at its Bataan Refinery for the PetroFCC (see Note 9). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the % share of product that are subject to retooling;

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts;

c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the three percent (3%) duty imposed on the imported counterpart

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity;

e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse;

f. Exemption from real property tax on production equipment or machinery; and,

g. Exemption from contractor's tax.

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

a. ITH for a period of five years without extension or bonus year from March 2006 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to base figure of 845 metric tons of grease product representing Petron's highest attained sales volume prior to rehabilitation;

b. Minimum duty of three percent and VAT on imported capital equipment, machinery and accompanying spare parts;

c. Tax credit on domestic capital equipment on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart;

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity;

e. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse;

f. Exemption from real property tax on production equipment or machinery; and,

g. Exemption from contractor's tax.

From the above BOI registrations, Petron has availed of ITH credits amounting to ₱162 in 2009, ₱171 in 2008 and ₱163 in 2007 (see Note 22). Yearly certificates of entitlement have been timely obtained by the Company to support its ITH credits.

33. Segment Information

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

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

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

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

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

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

e. Export sales of various petroleum and non-fuel products to other Asian countries such as Cambodia, South Korea, China, and Indonesia.

The following tables present revenue and income information and certain asset and liability information regarding the business segments for the years ended December 31, 2009, 2008 and 2007. Segment assets and liabilities exclude deferred tax assets and liabilities.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Year Ended December 31, 2009						
Revenue:						
External sales	**₱173,157**	**₱–**	**₱–**	**₱3,375**	**₱–**	**₱176,531**
Inter-segment sales	**2,183**	**131**	**194**	**–**	**(2,507)**	**–**
Segment results	**8,517**	**101**	**137**	**112**	**331**	**9,198**
Net income (loss)	**3,980**	**161**	**32**	**105**	**(20)**	**4,257**
Assets and liabilities:						
Segment assets	**110,272**	**1,966**	**2,840**	**1,262**	**(3,154)**	**113,187**
Segment liabilities	**74,811**	**277**	**1,981**	**537**	**(2,462)**	**75,146**
Other segment information:						
Property, plant and equipment	**31,351**	**–**	**–**	**661**	**2,772**	**34,784**
Depreciation and amortization	**3,505**	**–**	**–**	**80**	**–**	**3,586**
Year Ended December 31, 2008						
Revenue:						
External sales	₱263,393	₱–	₱–	₱4,283	₱–	₱267,676
Inter-segment sales	3,219	151	191	–	(3,561)	–
Segment results	(2,562)	124	150	119	317	(1,852)
Net income	(4,347)	155	115	92	65	(3,920)
Assets and liabilities:						
Segment assets	107,800	2,036	2,619	1,507	(3,049)	110,913
Segment liabilities	78,042	535	1,792	881	(2,363)	78,887
Other segment information:						
Depreciation and amortization	33,149	1	–	704	2,574	36,428
Property, plant and equipment	3,169	–	–	73	–	3,242
Year Ended December 31, 2007						
Revenue:						
External sales	₱207,621	₱–	₱–	₱2,899	₱–	₱210,520
Inter-segment sales	2,200	158	182	–	(2,540)	–
Segment results	9,227	134	161	86	300	9,908
Net income	6,113	177	94	82	(71)	6,395
Assets and liabilities:						
Segment assets	102,241	1,512	2,619	1,073	(2,971)	104,473
Segment liabilities	64,962	262	1,942	534	(2,282)	65,418
Other segment information:						
Depreciation and amortization	30,912	1	1	597	2,611	34,122
Property, plant and equipment	2,467	–	–	49	–	2,516

Intersegment sales transactions amounted to ₱2,507, ₱3,561 and ₱2,540 for the year ended December 31, 2009, 2008 and 2007, respectively, which amounts are less than 2% of the total revenues for the years presented.

The following tables present additional information on the petroleum business segment of the Company for the years ended December 31, 2009, 2008 and 2007:

	Reseller	Lube	Gasul	Industrial	Others	Total
Year Ended December 31, 2009						
Revenue	**₱74,954**	**₱2,079**	**₱12,298**	**₱68,438**	**₱17,570**	**₱175,340**
Property, plant and equipment	**4,296**	**427**	**268**	**63**	**26,296**	**31,351**
Capital expenditures	**575**	**573**	**263**	**55**	**17,066**	**22,193**
Year Ended December 31, 2008						
Revenue	₱102,980	₱2,086	₱14,993	₱96,844	₱49,708	₱266,611
Property, plant and equipment	4,138	489	255	46	28,221	33,149
Capital expenditures	288	3	58	5	5,722	6,076
Year Ended December 31, 2007						
Revenue	₱87,049	₱1,801	₱11,518	₱71,736	₱37,717	₱209,821
Property, plant and equipment	4,347	521	269	49	25,726	30,912
Capital expenditures	349	2	74	2	14,758	15,185

Geographical Segments

Segment assets by geographical location as well as capital expenditure on property, plant and equipment and on intangible assets by geographical location are not separately disclosed since the total segment assets of the segment located outside the country, Ovincor, is less than 1% of the consolidated assets of all segments as of the years ended 2009, 2008 and 2007.

The following tables present revenue information regarding the geographical segments of the Company for the years ended December 31, 2009, 2008 and 2007.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
Year Ended December 31, 2009						
Revenue:						
Local	**₱162,565**	**₱70**	**₱194**	**₱3,375**	**(₱2,507)**	**₱163,696**
Export/International	**12,774**	**61**	**–**	**–**	**–**	**12,835**
Year Ended December 31, 2008						
Revenue:						
Local	₱229,769	₱94	₱191	₱4,283	(₱3,561)	₱230,776
Export/International	36,843	57	–	–	–	36,900
Year Ended December 31, 2007						
Revenue:						
Local	₱177,949	₱84	₱182	₱2,899	(₱2,540)	₱178,574
Export/International	31,872	74	–	–	–	31,946

34. Events after the End of the Reporting Period

Issuance of Preferred Shares

On January 21, 2010, the SEC approved the Company's Amended Articles of Incorporation embodying the authorized capital stock consisting of: (a) 9,375,104,497 common shares with a par value of ₱1.00 per share issued and outstanding and (b) 624,895,503 preferred shares with a par value of ₱1.00 per share, which are all unissued. The SEC also approved the Company's Amended Registration Statement covering the registration of 50,000,000 preferred shares with an oversubscription option of up to 50,000,000 preferred shares. On January 27, 2010 the PSE approved the Company's application to list up to 100,000,000 perpetual preferred shares.

The Company, through the underwriters and selling agents, offered 50,000,000 cumulative, non-voting, non-participating, non-convertible peso-denominated perpetual preferred shares at an offer price of ₱100 per share during the period February 15-26, 2010. Due to a favorable market reception, the oversubscription option was triggered whereby the offer size was increased by an additional 50,000,000 preferred shares. Thus, the preferred shares issued reached a total par value of ₱10 billion. The dividend rate on the preferred shares was set at 9.5281% per annum payable quarterly in arrears.

The preferred shares were issued on March 5, 2010 and listed at the PSE on the same day.

Arrangement for a New Syndicated Term Loan Facility

On February 23, 2010, the BEC approved the issuance of a mandate for the group of ANZ, BTM and SCB to be the Lead Arrangers and Bookrunners for the Company's US$350 Syndicated Term Loan Facility with greenshore option to upsize to US$450 (see Note 14).

35. Other Matters

a. Petron has unused letters of credit totaling approximately ₱33, ₱70 and ₱27 as of end of 2009, 2008 and 2007, respectively.

b. Tax Credit Certificate Cases

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

In November 1999, the BIR issued an assessment against the Company for deficiency excise taxes of ₱284 plus interest and charges for the years 1995 to 1997, as a result of the cancellation by the Department of Finance (DOF) Center ExCom of Tax Debit Memos (TDMs), the related TCCs and their assignments. The Company contested on the grounds that the assessment has no factual and legal bases and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000. On

August 23, 2006, the Second Division of the CTA rendered its Decision denying the Company's petition and ordered it to pay the BIR ₱580 representing deficiency excise taxes for 1995 to 1997 plus 20% interest per annum from December 4, 1999. The Company's motion for reconsideration was denied on November 23, 2006. The Company appealed the Division's Decision to the CTA En Banc. On October 30, 2007, the CTA En Banc dismissed the Company's appeal, with two of four justices dissenting. The Company filed its appeal on November 21, 2007 with the Supreme Court. On December 21, 2007, in the substantially identical case of Pilipinas Shell, the Supreme Court decided to nullify the assessment of the deficiency excise taxes and declared as valid Pilipinas Shell's use of Tax Credit Certificates for payment of its tax liabilities. On November 7, 2008, the Supreme Court gave due course to the Company's appeal and directed the Company to file its Memorandum. After the parties filed their respective memoranda, the case is now submitted for resolution.

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

On December 3, 2008, the CTA En Banc promulgated a decision reversing the unfavorable decision of the CTA 2nd Division. The CIR filed a Petition for Review with the Supreme Court. The Supreme Court directed Petron to file comment on the petition in the Resolution dated February 4, 2009. Petron's Comment was filed on April 20, 2009.

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

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

c. Pandacan Terminal Operations

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

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

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

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

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

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

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

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

d. Executive Order No. 839 (EO839)

On October 2, 2009, President Gloria Macapagal-Arroyo, under Proclamation No. 1898, declared a state of national calamity in view of the devastations caused by typhoon "Ondoy" and "Pepeng." The President subsequently issued EO839, mandating that prices of petroleum products being sold in Luzon be kept at October 15, 2009 levels. In compliance with EO839, the oil companies, including Petron on October 27, 2009, rolled back prices to October 15, 2009 levels.

Pilipinas Shell filed its Petition on November 9, 2009 seeking prohibition, mandamus and injunction with prayer for the issuance of a temporary restraining order and/or writ of preliminary injunction. On November 13, 2009, the Regional Trial Court of Makati issued a temporary restraining order for a period of 20 days and scheduled further hearings for the writ of injunction. On November 16, 2009, the President issued EO845 lifting the price freeze under EO839 and directed a task force to implement proposals promised by oil firms, including discounts and staggered-price adjustments.

While EO839 did not include prices for Visayas and Mindanao retail and commercial accounts, Petron nevertheless did not adjust pump prices for these two sectors, while EO839 was in effect, in order to maintain reasonable price differentials with Luzon retail. Petron allocated the affected products nationwide during the implementation of EO839 in order to minimize potential losses to the Company. When EO839 was lifted through EO845, Petron consequently increased pump prices in Luzon on November 18, 2009 while a nationwide increase in pump prices was implemented on November 24, 2009. The affected volume by the price freeze under EO839 from October 27 to November 30, 2009 is 337 million liters with equivalent foregone income of ₱730 (inclusive of VAT).

e. 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.

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

Inspection by the Survey Ship Shinsei Maru, using a remote-operated vehicle (ROV), found the vessel upright with minimal traces of leakage. All cargo compartment valves were tightened by the ROV to ensure against further leakage. The Shinsei Maru was contracted by the Protection and Indemnity (P&I) Club and the International Oil Pollution Compensation (IOPC) from Fukada Salvage & Marine Works Co. Ltd.

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

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

The Company collected a total 6,000 metric tons of debris which were brought to the Holcim Cement facility in Lugait, Misamis Oriental for processing/treatment of waste. On November 20, 2006, one of the last barge shipments of oil debris unfortunately sunk en route to the same plant.

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

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

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. A total of 9,000 liters of oil was recovered.

Representatives from the 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. The Company has filed a total of ₱220 against the IOPC as of September 2008. Of this amount, a total of ₱129 had been paid to the Company. Out of the total outstanding claims from IOPC of ₱91, the Company collected ₱14 on July 27, 2009 as final settlement.

On 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 received a copy of the Subpoena on July 10, 2009. 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 of Directors 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 Subphoena in both cases directing Petron to file their Counter-Affidavit and other controvertible evidence. Petron filed a Manifestation and Motion for Extension of Time to file additional Counter-Affidavits.

f. Bataan Real Property Tax Cases

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

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

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

The Company exerted all efforts to explain to the Treasurer that the scheduled auction sale was illegal considering the Company's appeal to the LBAA and the posting of the surety bond. Considering the Treasurer's refusal to cancel the auction sale, the Company filed a complaint for injunction on October 8, 2007 before the Regional Trial Court to stop the auction sale. A writ of injunction stopping the holding of the public auction until the case is finally decided was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed before the LBAA by the respondents and the motion was granted by the LBAA on December 10, 2007.

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

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

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

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

List of Banks and Financial Institutions

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

Terminals and Depots

Luzon

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

BATANGAS
Bo. Mainaga, Mabini, Batangas

CALAPAN
Roxas St.Brgy.Ilaya,CalapanCity,Oriental Mindoro

LIMAY
Petron Bataan Refinery, Limay, Bataan

NAVOTAS
PFDA CMPD., Navotas, M.M.

PALAWAN
Parola,Brgy Maunlad Puerto Princesa City, Palawan

PANDACAN
Jesus St., Pandacan Manila

PASACAO
Brgy.Camangi, Pasacao Camarines Sur

PORO
Poro Pt.., San Fernando, La Union

ROSARIO
Gen. Trias, Rosario, Cavite

SAN JOSE
1020 A Mabini St. San Jose, Occidental Mindoro

Visayas

AMLAN
Tandayag, Amlan, Negros Oriental

BACOLOD
Bo. San Patricio, Bacolod City, Negros Occ.

ILOILO
Lapuz, Iloilo City

ISABEL
LIDE, Isabel, Leyte

MACTAN
MEPZ, Lapu-lapu City

MANDAUE
Looc, Mandaue City, Cebu

ORMOC
Bo. Linao, Ormoc City, Leyte

ROXAS
Arnaldo Blvd., Culasi, Roxas City

TACLOBAN
Anibong, Tacloban City

TAGBILARAN
Graham Ave., Tagbilaran, Bohol

Mindanao

DAVAO
Km. 9, Bo. Pampanga, Davao City

BAWING
Purok Cabu, Bawing, General Santos City

ILIGAN
Bo. Tuminobo, Iligan City, Lanao del Norte

LIMAY
Petron Bataan Refinery, Limay, Bataan

JIMENEZ
Jimenez, Misamis Occidental

NASIPIT
Talisay, Nasipit, Agusan del Norte

TAGOLOAN
Tagoloan, Misamis Oriental

ZAMBOANGA
Bgy. Campo Islam, Lower Calarian, Zamboanga City

LPG Operations

GASUL-PASIG
Bo. Ugong, Pasig, M.M.

LEGASPI
Lakandula Drive, Bgy Bonot, Legaspi City

GASUL-SAN FERNANDO
San Fernando, Pampanga

Calamba Warehouse

CALAMBA
Calamba, Laguna

Airport Installations

DAVAO
Davao Airport

ILOILO
Brgy. Airport , Mandurriao, Iloilo City

LAOAG
Laoag Airport

NAIA
JOCASP, CPD, NAIA, Pasay City

Product List

Fuels

AUTOMOTIVE FUELS
Petron Blaze
Petron XCS
Petron XCS E-10
Petron Xtra Unleaded
Petron Xtra Premium E-10
Regular Unleaded
Petron Diesel Max
Petron Xtend Autogas

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

AVIATION FUELS
Aviation Gasoline
Jet A- I

HOUSEHOLD FUELS
Gasul
Gaas

Automotive Lubricating Oils

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

GASOLINE ENGINE OILS
Ultron Race
Ultron Rallye
Ultron Touring
Ultron Extra
Petron MO

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

AUTOMOTIVE GEAR OILS
Petron GX
Petron GEP
Petron GST

Automotive Transmission Fluids
Petron ATF Premium
Petron TF 38
Petron TDH 50

Industrial Lubricating Oils

TURBINE, HYDRAULIC AND CIRCULATING OILS
Hydrotur AWX
Hydrotur AW
Hydrotur AW (GT)
Hydrotur EP 46
Hydrotur N 100
Hydrotur R
Hydrotur SW 68
Hydrotur SX 32
Hydrotur SX 68
Hydrotur SX 220
Hydrotur T
Hydrotur TEP

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

CUTTING OILS
Turnol
Petrokut 10
Petrokut 27

REFRIGERATION OILS
Zerflo 68
Suniso

OTHER INDUSTRIAL LUBRICATING OILS
Petrocyl S
Petrocyl
Airlube
Spinol 15
Spinol 10E
Petrosine 68
Voltran 60

Marine Lubricating Oils

MARINE CYLINDER OILS
Petromar DCL 7050
Petromar DCL 4000 Series

MARINE TRUNK PISTON ENGINE OILS
Petromar XC 5540
Petromar XC 5040
Petromar XC 4040
Petromar XC 3000 Series
Petromar XC 2000 Series
Petromar XC 1500 Series
Petromar XC 1000 Series

OTHER MARINE LUBRICANTS
Petromar 65
Petromar HD Marine Series

Greases

REGULAR PERFORMANCE GREASES
Petrogrease MP
Petrogrease XX

PREMIUM PERFORMANCE GREASES
Molygrease EP2
Molygrease Premium
Petrogrease EP
Petrogrease Premium

HIGH TEMPERATURE GREASES
Molygrease EP 1P and EP 2P
Petrogrease EP 290 and EP 375
Petrogrease HT

COMPLEX GREASES
Petrogrease Lithium Complex
Petrogrease Lithium Complex with Moly

FOOD GRADE GREASES
Petrogrease Food Grade

Asphalts

PENETRATION ASPHALT
Petropen

CUTBACK ASPHALT
Petropen CB

EMULSIFIED ASPHALT
Petromul CSS -1

BLOWN ASPHALTS
Asphaltseal
Asphalt Joint Sealer

Special Products

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

HEAT TRANSFER OIL
Petrotherm 32

CLEANING AGENT
Greasolve
Carbon Flush

FLUSHING OIL
STM

SEALING LUBRICANT
Dust Stop Oil

PROTECTIVE COATINGS
Petrokote 500
Petrokote 392
Marinekote
Marinekote SS
Autokote
Cablelube
Cablekote

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

Aftermarket Specialties

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

Aviation Lubricants

Braycote 622
Nyco Grease GN 22
Hydraunycoil FH 51
Royco 481
Aviation Oil EE
Invarol FJ 13
Exxon Turbo Oil 2389
Exxon Turbo Oil 2380
Univis J-13
Turbonycoil 35 M
Turbonycoil 600

Information and Assistance

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40 San Miguel Avenue
1550 Mandaluyong City
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Fax No. : 884 – 0945
Website: www.petron.com
Email Address: contactus@petron.com

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

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

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

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