Sustaining Momentum

2007 Annual Report

PETRON
Fuel Success.

Petron continually strives to be a more people-and planet-friendly organization as it builds more modern facilities that comply with the strictest global environmental standards, succeeding to generate more employment and help the local economy flourish.

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Sustaining Momentum

	Net Income (In Million Pesos)	Market Share (In Percent)
2007	6,395	38.9
2006	6,018	38.8
2005	6,051	38.1
2004	4,101	37.7
2003	3,114	33.8
2002	2,921	32.9

Vision Mission Values

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.

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.

We operate a refinery in Limay, Bataan, with a rated capacity of 180,000 barrels a day. Our ISO-14001-certified refinery processes crude oil into a full range of petroleum products including LPG, gasoline, diesel, jet fuel, kerosene, industrial fuel oil, solvents, asphalts, and the petrochemical feedstocks—mixed xylene and propylene.

From the refinery, we move our products mainly by sea to our 32 depots and terminals situated all over the country. Through this nationwide network, we supply fuel oil, diesel, and LPG to various industrial customers. The power sector is our largest customer.

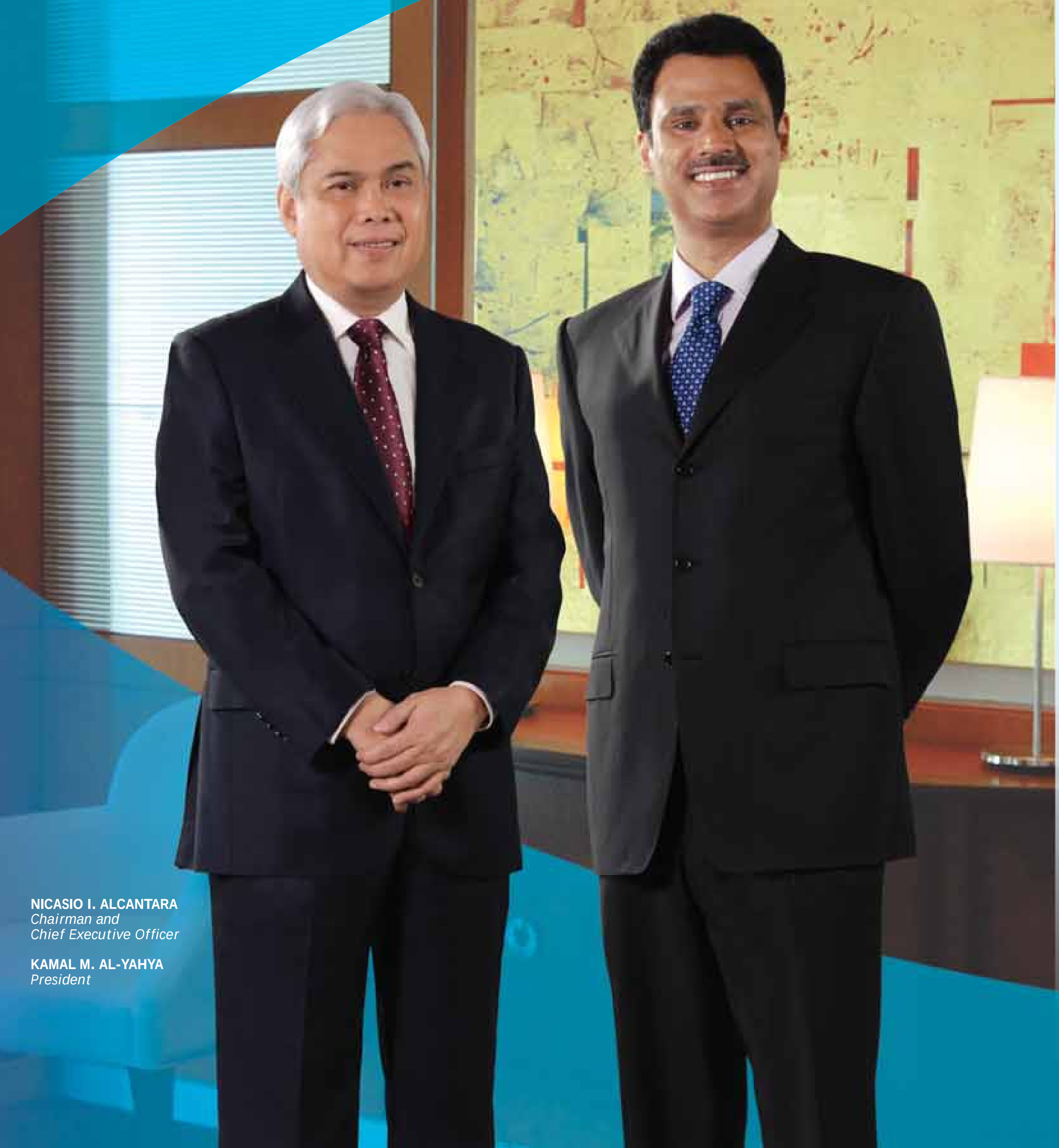
We also supply jet fuel at key airports to international and domestic carriers.

Through more than 1,260 service stations, we retail gasoline, diesel and kerosene to motorists and public transport operators. We also sell our LPG brand Gasul to households and other consumers through an extensive dealership network.

We operate a world-class lube oil blending plant at our Pandacan Terminal, where we manufacture lubes and greases. These are also sold through service stations and sales centers.

We are expanding our non-fuels businesses which include our convenience store brand "Treats." We have partnered with major fast-food chains and other consumer services to give our customers a one-stop full service experience. We are also putting up additional company-owned and company-operated service stations in strategic locations.

Message To Our Stockholders



NICASIO I. ALCANTARA
Chairman and Chief Executive Officer

KAMAL M. AL-YAHYA
President

SUSTAINING MOMENTUM

2007 was another challenging year for us, with international crude oil prices going to new record highs and averaging 11% above 2006 levels. While an appreciating peso softened the impact of higher crude costs, this also weakened our export performance. Meanwhile, competition in the local industry remained at fever pitch as refiners and importers alike sought to increase market share. But again, your company made good on its commitment to continue to create value for shareholders. For the third straight year, we delivered a net income in excess of ₱6 billion.

This consistent performance points to the robustness of the growth platform that we laid down a few years ago when we redefined our vision/mission: to be the leading provider of total customer solutions in the energy sector and its derivative businesses. We have pursued market dominance and products and market diversification in the service of this goal, complementing these with cost and asset efficiency, organizational effectiveness, and corporate social responsibility programs.

Our ₱6.4 billion net income for 2007 affirms the success of our strategic framework. The accomplishments that enabled us to achieve this record income level can be seen to support our major strategies.

MARKET DOMINANCE

Petron continued to lead the market, managing to grow its domestic sales at 3.2%—slightly higher than the industry demand growth of 3%. Our market share improved to 38.9% from 38.8% in 2006.

We maintained our lead in all the trades except in lubes, where we remained a strong No. 2. Worth noting is the increase in our market share in the LPG trade by almost 5 percentage points, rising to 34.0% from 29.1% in 2006. While the increase in volumes was to be expected with our acquisition of Chevron's retail LPG business, we also saw higher sales in our traditional LPG markets.

We continued to expand our Retail network, aiming to preserve our leadership in the segment of the market that accounts for nearly half of the country's oil demand. Tapping into areas with high volume potential, we constructed 40 new service stations. Our market share in this highly competitive trade increased to 36.1% from 34.8% in 2006.

PRODUCTS AND MARKET DIVERSIFICATION

Our diversification efforts continued to pay off in 2007.

Sales from our non-fuel businesses grew nearly 33%, with franchises (e.g., Jollibee, Chowking, Gloria Jean's) showing a revenue growth of around 53% and convenience (Treats) stores, 23%.

Our entry into non-traditional outlets for our lubes has likewise been highly successful. Our lube exports to Cambodia increased by almost 75% in 2007. Domestically, sales generated by Petron Service Centers were up 17.5% while those of distributors more than doubled. To further boost our lube sales, we also opened 5 Petron Car Care Centers during the year.

In the autoLPG market, we have the highest market share at nearly 30%, which is 7 percentage points ahead of our nearest competitor. Our share is nearly double than what we had in 2006, when we were only the second largest player in this sub-sector.

COST AND ASSET EFFICIENCY

During the year, we continued our efforts to improve efficiency and manage costs in our supply chain and other key areas.

Our Bataan refinery met its target for processing efficiency and did better than target for operational availability. Mixed xylene production was higher than planned, and improved from solvent grade to the more valuable isomer grade in the second quarter.

Petron had significantly lower crude freight costs compared to the other refiner in the country, sustaining a historical trend. By entering into contracts of affreightment to guarantee availability of quality vessels, we also enjoyed better-than-market freight rates and obtained savings of over $3 million.

In domestic product transshipment, we proceeded with our Shipping Alliance Project, which aims to replace our contracted marine fleet with modern, high-performance, and safer vessels while managing costs. Three out of 6 vessels in the program were in service by end 2007, with the remaining 3 for commissioning in early 2008.

In the area of finance, our costs for the year were significantly lower than in 2006. Working capital financing was obtained at better-than-market lending rates. Furthermore, agility in the timing of hedging activities resulted in ₱1.1 billion in forex gains.

Asset management and other financial transactions contributed around ₱193 million to the bottom line, while our insurance subsidiaries brought in ₱177 million in income.

ORGANIZATIONAL EFFECTIVENESS

Petron continued to pursue programs designed to enhance employee productivity, including initiatives in information technology and human resource management.

Attesting to the success of its HR programs, Petron was one of the top finalists for the Personnel Management Association of the Philippines (PMAP) Employer of the Year Award.

In an employee opinion survey done across Asia by a global company, Petron scored higher than the Asian norm in 14 out of 15 categories. The survey results highlighted employees' pride in the company, as well as understanding of business goals and alignment of their work to these goals.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Our commitment to CSR programs remained a major theme in Petron's corporate agenda.

Under our flagship project which is HOPE or Helping Filipino Children and the Youth Overcome Poverty through Education, the company's support extended to over 6,000 school children in public elementary schools. In the school year ending in 2007, there were 380 outstanding and 55 first honor students among these children. The first batch of more than 1,000 students will be graduating in March 2008.

The company also built 8 Petron Schools in 2007, bringing the total of such schools to 21, with a total of 81 classrooms.

2007 also marked the launch of our new major environmental initiative called "Life and Livelihood: Sustaining the Tubbataha Reefs and the Sulu Sea." In partnership with World Wide Fund (WWF) Philippines, Petron aims to help preserve what is considered an invaluable resource for marine biodiversity in the country.

MOVING TO THE PETROCHEMICAL DECADE

The next phase of Petron's growth is anchored on diversification into petrochemicals. While our fuels business will continue to provide a stable earnings base, petrochemical feedstocks—with the global market premiums they command relative to fuels—will take us to a new growth trajectory.

At the end of 2007, construction work on phase one of our Refinery Masterplan was well advanced. Both the Petro Fluidized Catalytic Cracker (PFCC) and the Propylene Recovery Unit (PRU) were close to 100% completion. The remaining work is focused on the Benzene-Toluene-Xylene (BTX) unit, where construction is expected to be completed by early 2009.

Succeeding phases of our Refinery Masterplan are on the drawing board. We are aiming to complete the strategic transformation of Petron within the next decade. But even as early as 2008, we expect to see the dawn of our petrochemical age. Your company is headed for exciting new horizons.

NICASIO I. ALCANTARA
Chairman and Chief Executive Officer

KAMAL M. AL-YAHYA
President

Operating Highlights

2007 proved to be another successful year for our company as we managed to sustain our growth momentum.

This was a remarkable accomplishment given that the benchmark Dubai crude reached new highs, hitting a peak of more than $90/barrel in November 2007. This significantly increased our costs and put pressure on our working capital. Industry players remained aggressive, increasing their investments in the fight for market share.

Nevertheless, we posted a net income of ₱6.4 billion—the highest registered by Petron. This marked seven straight years of profitability following the loss we incurred at the onset of the new millennium.

Clearly, our strategies are working.

We continued to build up our market dominance

Petron refuses to be complacent despite its strong leadership position. We continue to broaden our horizons by exploring other avenues for growth while unlocking the potential of our existing resources.

NETWORK EXPANSION

We added more Petron service stations across the country to bring our products and services closer to consumers. With 1,269 service stations nationwide at the end of 2007, our company continues to have the largest retail network in the country. Petron service stations comprise 30% of the oil industry's total station count.

With our extensive network and marketing campaigns such as *Sandosenang Milyonaryo*, Petron remains the No.1 player in the highly-competitive Reseller trade with 36.1% of the market. This segment comprises nearly 50% of total domestic consumption.

We also expanded our market in the LPG sector with the acquisition of Chevron's LPG retail business in May 2007. This acquisition—involving both dealerships and branded refillers —resulted in a remarkable 24.2% growth in our LPG volumes, the strongest posted in the sector. This was complemented by the establishment of 84 Gasul branch stores, bringing the total to 275.

Our LPG sales were also boosted by the increase in autoLPG facilities in Petron service stations. This enabled us to capture around 30% of the autoLPG market, making us the sales leader in this segment.

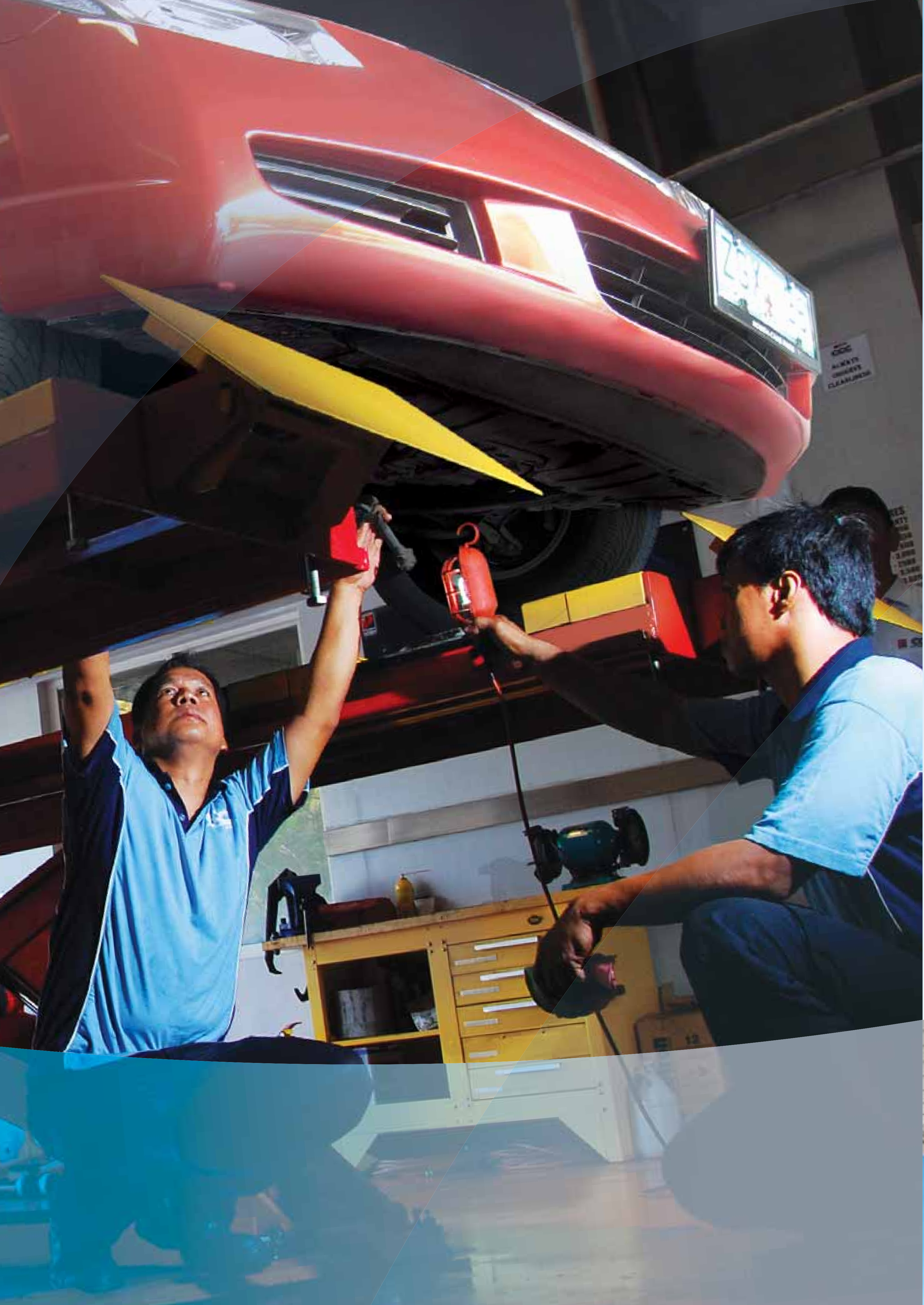
With a 34.0% market share by yearend, our Gasul and Xtend brands continue to be the most preferred LPG products.

We likewise managed to sustain our edge over our competitors in other trades.

While there was a slight drop in our Industrial sales as some customers shifted to alternative fuels or decreased operations, this was mitigated by our acquisition of several major accounts such as United Parcel Services (UPS), La Farge Cement and Malaysian Airlines. We remained the dominant player in this segment with 41% of total volumes.

Our sales to National Power Corporation (NPC) jumped by nearly 18% with the increased utilization of oil-fired power plants. Petron supplied 57.6% of NPC's requirements—which is 36% more than our nearest competitor. We also maintained a 100% share of fuel supply for the national government, the Armed Forces of the Philippines and the Philippine National Police.

Meanwhile, Petron posted growth in the lubes and greases sector with a 7.3% increase in volumes—the highest in the industry. This allowed us to remain a strong second as we shaved off the lead of our closest competitor by 1.1 percentage points by the end of 2007.



This was supported by the establishment of more Petron Car Care Centers (PCCC) in strategic, high-traffic areas. PCCC is Petron's branded and franchiseable vehicle maintenance center that provides affordable, convenient, reliable, and efficient upkeep and repair services at par with or even better than *casa* service quality.

All our efforts resulted in a 3.2% increase in our domestic sales, further cementing our leadership in the industry with 38.9% share of the total market.

WORLD-CLASS PRODUCTS

Product quality continuously evolves in Petron. Our products are constantly tested and improved to give our customers more value for their money.

In 2007, we introduced three new variants of Sprint 4T Motor Oil: Enduro, Rider, and Extra. While each is formulated to suit particular driving situations, all provide outstanding lubrication performance and reliable engine-cleaning action that consumers have come to trust through the years.

We also improved on the formulation of our XCS Plus premium gasoline. The New Petron XCS Complete Combustion System is the only gasoline in the Philippine market with organic combustion enhancers that promote a cleaner and better burn. This translates to reduced emissions, smoother acceleration, and better fuel economy.

Other new products include Hydrotour SW 68 oil for machines and tools lubrication, and Octapower CI-9150 fuel additive which is used to optimize heavy fuel oils through more efficient combustion and improved heat transfer.

Meanwhile, Petron also began blending 1% Coco Methyl Ester (CME) for its automotive and industrial diesel fuels in compliance with the Biofuels Act of 2006.

NEW MARKETING VENTURES

While we ensure that our core business remains intact and well-supported, we also continue to embrace other markets and broaden our business within the petroleum retail industry in order to sustain our growth momentum.

In 2007, we continued to strengthen our network of non-fuel retail establishments, mostly food-related, through our subsidiary Petron Marketing Corporation.

We added four more outlets to our convenience store chain Treats, bringing the total outlet count to 48 nationwide. We also franchised outlets of Jollibee and Chowking, two of the most popular fastfood chains in the country. Other food stores with new outlets in our service stations include Subway, Monterey, Ineng's BBQ, and Lapid's Chicharon. Non-food retail outlets, on the other hand, include Cool Toyz and even a Nike outlet store.

Both our fuels and non-fuels businesses were further supported by a 28% growth in the number of Petron Fleet Card holders. The Petron Fleet Card is still the one and only motorist card with microchip technology that allows more efficient fleet management.

Collectively, our non-fuels businesses contributed nearly ₱390 million to our revenues in 2007.

We believe that maintaining the efficiency of our operations and our people is just as vital as expanding markets and boosting sales in our quest for business sustainability. We make it a point to preserve and fortify our internal resources so that when faced with adverse external situations, we are able to thrive and meet unexpected challenges.

OPERATIONAL EFFICIENCY AND SAFETY

One of our more notable achievements for 2007 is the improved operational availability of our process units at our Petron Bataan Refinery to 95.7%. This is 2.5% better than 2006. This was made possible by the continuous implementation of plant reliability and maintenance programs, as well as the continuing training of our refinery personnel.

We also managed to extract more value from our refinery by improving the quality of our mixed xylene (MX) production. We replaced our heat exchanger in one of our refinery units to improve our MX from solvent grade to isomer grade which fetches a better price in the international market.

Processing efficiency of crude oil at our Bataan refinery stood at 99.3%, while we continued to reduce fuel and power consumption to improve energy efficiency.

We have also put in place tighter monitoring procedures in line with inter-island or crossbay product deliveries. This allowed us to promptly determine the necessary vessel repairs and upgrades, improve product measuring accuracy, and readily spot abnormal product losses during transport. As a result, there has been a significant reduction of our shore-to-shore oil losses in the last three years.

Another major part of supply chain improvement is the acceleration of our Shipping Alliance Project. Under this project, we aim to contract modern, high-performance and safer vessels. This reflects our commitment to transport products across the country in a safe and efficient manner. Already in service are double-hull and double-bottom vessels M/T Ashton, M/T Petro Anica, M/T Daniela Natividad and M/T Cecilia Luisa.

We focused on further operational enhancements

Meanwhile, we fortified our efforts to conduct our operations in an environment-friendly manner, as evidenced by the ISO-14001 certification of a majority of our facilities nationwide. This certification means that the environmental management systems we have in place are at par with, or even exceed, international standards.

Last year, four more of our depots (located in Tacloban, Ormoc, Nasipit, and General Santos) were granted the ISO-14001 certification, bringing the total count of ISO-14001 certified facilities to 11 as of year end 2007. The other facilities are located in Mandaue, Bacolod, Iloilo, Zamboanga, Tagoloan, Davao, and Jimenez.

We also constructed a new 15,000-barrel storage tank and loading facilities for Jet A-1 fuel at our Limay Terminal last year. The presence of these facilities puts us in a strategic position to serve potential customers at the Diosdado Macapagal International Airport in Clark, Pampanga, and will result in operational savings in the long-term. Incidentally, Petron acquired the account of United Parcel Services (UPS), one of the biggest aviation fuel customers in Pampanga's economic hub.

Our efforts toward operational efficiency are always fully backed by programs that enhance safety awareness. For instance, we continued to implement our Contractor Safety Management or CSM Program which requires all of our contractors to comply with our safety and health standards prior to working within our facilities.

Regular training on oil spill response and fire-fighting was likewise conducted, not only for our own personnel but for major customers and industry partners as well. Poster and Slogan-Making Contests, as well as the posting of safety reminders in all facilities, helped frontload the importance of safety in the minds of employees. Underscoring the success of our safety initiatives is our combined record of 16,037,958 man-hours without lost time incidents. This impressive record includes all of our facilities nationwide.

FURTHER TECHNOLOGICAL INNOVATIONS

We continue to adopt the latest technologies to ensure that internal processes unlock more value out of our present assets and improve our overall organizational effectiveness. These are essential in supporting refining, supply and marketing efforts.

In 2007, we rolled out the Inventory-Driven Delivery System (IDDS)—a project aimed at bringing fuel inventory closer to our customers or select service stations. This will result in better product availability and increased utilization of bigger capacity tank trucks.

We continued to align our IT (Information Technology) systems with the principles of Knowledge Management through continuous improvements in our SAP system and the Petron Hub, our company's intranet portal. These IT systems allow us to optimize available data in support of business objectives as well as to remotely collaborate on projects.

Alongside our Knowledge Management initiatives, we began developing a standardized set of data security procedures and guidelines in line with our pursuit of an ISO-certified Information Security Management System (ISMS).

Meanwhile, we launched the Strategic Sourcing Project, the first of three phases of Petron's Procurement Improvement Program which aims to streamline and make transparent our materials and services procurement process while promoting alliances with the best suppliers. The next phases of this program involve developments on e-procurement and outsourcing. All in all, the Procurement Improvement Program is projected to produce annual cost savings amounting to $2 million.

Recognizing that Petron operates in a mature and relatively unpredictable industry with only modest growth potential, we continued to implement our strategic transformation program. This is focused on diversifying into petrochemical feedstock production—a very promising revenue stream—and broadening our overseas markets.

THE DAWN OF OUR PETROCHEMICAL AGE

Petrochemical feedstocks are the raw material for products used in the manufacture of everyday items such as food packaging, appliances, suitcases, furniture, DVD's and even car parts. As a commodity, it is far less socially-sensitive than petroleum fuels, our main product line. Production of petrochemical feedstocks such as propylene therefore guarantees improved margins and a wider market for the company.

Our diversification strategy is anchored on our $300-million Refinery Master Plan, centered on leveraging our existing refinery assets to produce high-value petrochemical feedstocks such as propylene, benzene, toluene, and mixed xylene.

2007 saw us putting the final touches on two of the three major components of our Refinery Master Plan—the Petro Fluidized Catalytic Cracking Unit (PetroFCC) and its accompanying Propylene Recovery Unit (PRU). These facilities allow us to extract propylene from our refinery streams, as well as produce more high-value white products like diesel, gasoline and LPG.

We also started work on the Benzene-Toluene-Xylene (BTX) extraction unit, another component of the Refinery Master Plan. This unit will allow us to double our mixed xylene production and extract benzene and toluene from our refinery streams.

We looked beyond our core business to sustain our growth

The PetroFCC has a conversion capacity of 19,000 barrels per day while the PRU will produce 140,000 metric tons of propylene annually.

From a national perspective, these units lessen the dependence of the local petrochemical industry on imports and encourage more investments in this vital sector. Additionally, this major investment underscores our belief in the country's growth prospects and our commitment to contribute to the national economy.

REGIONAL MARKET EXPANSION

Petron is poised to further increase its presence in the Asia-Pacific market through a partnership with Innospec, a leading global fuel additives supplier. Essentially, it is a strategic business collaboration through which Innospec gains more proximity to the regional market while allowing Petron to tap Innospec's regional customer network for its own lubricants and specialty chemicals.

In line with the agreement, Petron began constructing in 2007 a world-class fuel additives plant in Subic Bay Freeport which will serve as Innospec's Asian supply hub. Aside from supplying Innospec's customers in the Asia-Pacific, we will also source our fuel additives from this facility thus realizing cost-savings. Petron, as Innospec's exclusive toll blender in the region, will operate this facility through its subsidiary Petron Freeport Corporation. The plant will commence operations by mid-2008.

Meanwhile, Petron will also render technical support services to Innospec in the region, as well as directly participate in marketing fuel additives to select markets in Southeast Asia, Northeast Asia, China, and India.

The venture is expected to lay a solid foundation for our regional expansion as we fuse our technical and marketing expertise with Innospec's strong presence in Asia.

Petron vigorously pursued various programs that promote not only professional development but a healthy work-life balance among its employees. We likewise continued to pursue our corporate governance programs as part of our commitment to improve from within and serve our stakeholders better.

INVESTING IN OUR PEOPLE

In June 2007, we invited tycoon Lance Gokongwei of the JG Summit Group, one of the country's largest conglomerates, to inspire our leaders with his success story in "An Hour With A Champion." Incidentally, this regular initiative has earned for Petron the 2007 Integrated Marketing Communications Award for Best Internal Marketing Program from the University of Asia and the Pacific, as well as two 2007 Gold Quill Awards of Merit from the International Association of Business Communicators.

We also held various seminars that promoted greater awareness of the company's vision and mission among employees as well as improved management skills. Such professional development programs were complemented by projects that promote personal well-being, including painting workshops and sports tournaments.

We also fared favorably in a regional employee opinion survey we joined that was conducted by a global company, scoring higher than the Asian norm in 14 out of 15 survey categories.

We drew more strength from within

BANKING ON OUR INTEGRITY

Once again, Petron secured the "PRS Aaa" credit rating from the Philippine Rating Services—the highest possible rating for credit-worthiness for corporates. This underscores our very strong capacity to meet our financial commitments.

Meanwhile, our company also retained the honor of being one of the best-governed publicly-listed companies based on the 2007 Corporate Governance (CG) Scorecard by the Institute of Corporate Directors (ICD). This is the third straight year that our company has earned this distinction from the ICD, an organization accredited by the Securities and Exchange Commission (SEC) to determine the level of CG observance of publicly-listed corporations relative to the global standards set by the Organization for Economic Cooperation and Development or OECD.

Such recognitions, coupled with our proven astuteness in leveraging them, have time and again helped us sustain our financial health and our negotiating strength with banking partners.

One of the testaments to this fact was our success in obtaining the lowest interest rates on short-term loans in 2007 which averaged better than the prevailing market lending rates ranging from 5.6% to 9.12%. This achievement, coupled with prudent hedging decisions and a favorable foreign exchange environment, allowed us to lower our financing cost by about a billion pesos compared to 2006.

Our sound financial moves helped offset the pressures on our cash resources that we anticipated in light of record high crude prices and ongoing capital investments.

We make it a point to complement our business growth initiatives with equally sustained efforts in promoting social development. The expansion of our business also means stronger support for our Corporate Social Responsibility (CSR) programs.

FUELING HOPE

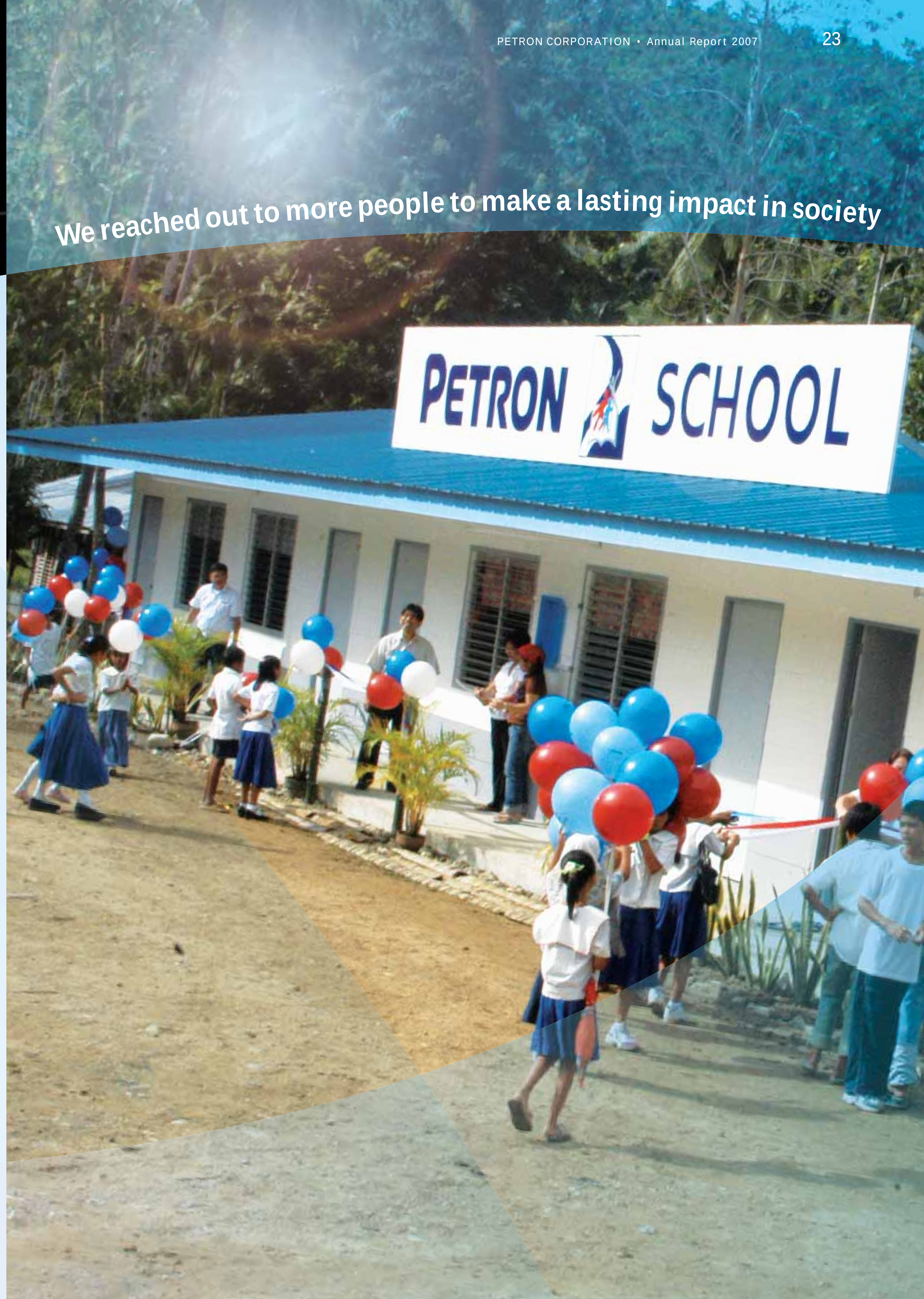
Our Fuel H.O.P.E. or Helping Filipino Children and the Youth Overcome Poverty through Education program continued to be at the forefront of Petron's corporate social responsibility (CSR) agenda in 2007. Our banner project, *Tulong Aral ng Petron,* supports over 6,000 underprivileged children in public elementary schools in Metro Manila and Mindanao. Out of this group of scholars, nearly 380 are recognized as outstanding students and over 55 are first honors. Our first batch of 1,000 *Tulong Aral* scholars graduates in March 2008.

We continued to enhance this program through the help of our business partners such as the Department of Social Welfare and Development (DSWD), Department of Education (DepEd), World Vision, the Philippine Psychology Research and Training House, and ShoeMart.

Through our strong partnerships with Habitat for Humanity and *Gawad Kalinga,* we constructed 8 more Petron Schools to provide 40 new classrooms. At the end of 2007, we already had 21 Petron Schools across the country.

We likewise sustained our support to youth education, focusing on enhancing the entrepreneurial spirit of high school and college students. Through our Youth in Entrepreneurship and Leadership or YIELD Program, select students from the Muntinlupa Business High School completed a 240-hour on-the-job training in several of our service stations. Our Junior Achievement of the Philippines and WIWAG Business Weeks programs, meanwhile, continued to equip college students with practical business knowledge, with our very own employees serving as mentors.

We reached out to more people to make a lasting impact in society



PRESERVING TUBBATAHA REEF

Our people-oriented CSR programs are matched by equally notable environmental initiatives. We launched our landmark program called "Life and Livelihood: Sustaining the Tubbataha Reef and the Sulu Sea" in partnership with World Wide Fund Philippines (WWF-Philippines). This will provide livelihood opportunities to the Municipality of Cagayancillo, which has jurisdiction over Tubbataha Reef. This in turn promotes the preservation of Tubbataha Reef—the only UNESCO marine heritage site in Southeast Asia.

ENGAGING OUR EMPLOYEES

Our employee volunteers continued to be at the heart of these socio-civic projects; in 2007, 776 employees put in at least 13,425 hours in volunteer work. Their generous and sincere support to Petron's CSR programs helped us make a positive impact on at least 130,000 beneficiaries nationwide.

All these initiatives enabled us to make a more meaningful contribution as an active partner of the government in poverty alleviation and sustainable development.

Despite the challenges of a more competitive and volatile business environment in 2007, our will to sustain our growth momentum remained resolute. We are fueled by our desire to provide our stakeholders with the best products and services. We are fueled by our commitment to bring reliable energy to millions of Filipinos. More importantly, we are fueled by our determination to positively contribute to the national economy. WE FUEL SUCCESS!

Photos by Lory Tan—WWF Philippines and Manny Dizon

Corporate Governance

Petron is deeply committed to implement programs and policies that will promote and instill best practices in good governance in the workplace and in its business dealings with other companies—policies that go beyond compliance.

The Compliance Officer monitors the company's adherence to the provisions and requirements of its Corporate Governance Manual as well as the other Manuals which clearly spell out approving authorities and limits, policies, and procedures including contracting and bidding rules. The Officer ensures that Petron complies with all disclosure requirements of the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE). To enhance transparency, all disclosures are posted in the company's website: www.petron.com. A separate disclosure section was created in the website's homepage to make readily available to stakeholders, information regarding the company's operations and corporate concerns.

Under the tight monitoring of the Compliance Officer, the company has maintained its zero-penalty status with the SEC and PSE for the period.

THE BOARD OF DIRECTORS

Petron has a total of ten directors, two of whom are independent. The nomination and election of two independent directors is pursuant to Rule 38.1 of the Securities Regulations Code and Section II of the company's Corporate Governance Manual. Representing the interest of the minority stockholders, independent directors must be free from any business interests or relationship with the company which could or appear to affect the exercise of independent judgment.

The nomination for independent directors is announced in major newspapers and a copy of the nomination form is made available in the company website and at the Office of the Corporate Secretary. Nominations are carefully screened by the Nomination Committee and submitted to the Board of Directors, which in turn endorses the names of the candidates to the stockholders for election at the annual meeting. Only those appearing in the Final List of Candidates prepared by the Committee shall be eligible for election as independent directors. No nominations are entertained on the floor.

The directors sign Conflict-of-Interest Statements, disclosing their respective business interests to ensure that these are not in competition with Petron. They are also made aware of the requirement to inform the SEC and the PSE of any acquisition and disposal of Petron shares. Upon assumption of office, the directors are required to attend basic corporate governance seminars. The company also coordinates with accredited providers of good corporate governance seminars to ensure that directors are kept abreast with the latest developments and best practices in this important area.

In 2007, Petron President and Director Mr. Kamal M. Al-Yahya attended the basic course while Mr. Alberto A. Pedrosa joined the Professional Directors Program, both provided by the internationally-recognized Institute of Corporate Directors (ICD). Other directors and officers have already attended orientation programs on corporate governance here and abroad.

BOARD MEETINGS AND PERFORMANCE

The schedule of board meetings for the entire year is fixed at the start of the year. Apart from the quarterly board meetings and the annual stockholders' meeting, the Board also holds special board meetings through video conferences.

In 2007, the Board had four regular meetings, three special meetings, and Board Committee meetings. Their attendance to these meetings are shown in Table 1.

The company continues to implement a performance evaluation system to promote higher awareness among directors for the competent and responsible performance of their duties and functions. Essentially, the evaluation is made among the directors. Evaluation forms are required to be accomplished at the end of the year assessing the performance of the Chairman and the President by the Directors; the Board Committee Chairman by the respective members; and the Directors by the Chairman and the President.

TABLE 1

DIRECTORS	EXECUTIVE/ NON-EXECUTIVE / INDEPENDENT DIRECTOR	ATTENDED CORPORATE GOVERNANCE SEMINAR	BOARD MEETING DATES							COMMITTEE MEMBERSHIP		
			20-February	4-April (a)	3-May	27-July (b)	27-July (c)	28-July (d)	9-November	Nomination	Audit	Compensation
Nicasio I. Alcantara	Executive Director	●	●	●	●	●	●	●	●	●		●
Khalid D. Al-Faddagh (e)	Executive Director	●	●	●	●	●	●	●		●		●
Kamal M. Al-Yahya	Executive Director	●							●	●		●
Khalid G. Al-Buainain	Non-Executive Director	●	●	●	●	●	●	●	●			●
Bernardino R. Abes	Non-Executive Director	●	●	●	●	●	●	●	●			●
Abdullah O. Al-Baiz	Non-Executive Director	●		●		●	●	●	●			●
Herminio S. Aquino (f)	Non-Executive Director	●	●	●	●	●	●	●			●	
Michael T. Defensor	Non-Executive Director	●							●		●	
Nabilah M. Al-Tunisi	Non-Executive Director	●					●	●	●	●	●	
Alberto A. Pedrosa	Non-Executive Director	●	●	●	●	●	●	●	●	●		
Douhan H. Al-Douhan	Independent Director	●	●	●	●	●	●	●	●	●	●	●
Emilia T. Boncodin	Independent Director	●	●	●	●	●	●	●	●	●	●	●

Notes: a. Special Board Meeting through video conferencing
b. Special Board Meeting
c. Annual Stockholders' Meeting
d. Organizational/Regular Board Meeting
e. Mr. Al-Faddagh resigned effective August 31, 2007. He was replaced by Mr. Kamal M. Al-Yahya on September 1, 2007
f. Mr. Aquino resigned on October 31, 2007 and was replaced by Michael T. Defensor on November 8, 2007

BOARD COMMITTEES

Pursuant to the company's By-Laws, Petron has in place committees which assist the Board in ensuring that Management carries out its policies and directives, especially in the areas of operational safety and care for the environment as well as transparency and good governance. These are the Nomination, Compensation and the Audit Committees. The two independent directors are members of all Petron Board Committees. The members of the Committees are shown in Table 2.

1. Nomination

The Nomination Committee is composed of six members, with an Independent Director as Chairman. Its main responsibility is to pre-screen and shortlist candidates proposed to become members of the Board of Directors. It ensures that the members of the Board of Directors have all the appropriate qualifications and none of the disqualifications as prescribed under the Corporation Code, Company By-Laws and Corporate Governance Manual.

For 2007, the Nomination Committee endorsed the appointments of Ms. Nabilah M. Al-Tunisi, who replaced Mr. Basil A. Abul-Hamayel in February; Mr. Kamal M. Al-Yahya for Mr. Khalid D. Al-Faddagh last September; Mr. Michael T. Defensor for Mr. Herminio S. Aquino last November; and the nominations for Petron Directors and the Final List of Candidates for Independent Directors for the annual meeting.

TABLE 2

DIRECTORS	EXECUTIVE/ NON-EXECUTIVE/ INDEPENDENT DIRECTOR	NOMINATION	AUDIT	COMPENSATION
Nicasio I. Alcantara	Executive Director	•		•
Khalid D. Al-Faddagh	Executive Director	•		•
Kamal M. Al-Yahya	Executive Director	•		•
Khalid G. Al-Buainain*	Non-Executive Director			•
Abdallah I. Al-Saadan	Non-Executive Director			•
Bernardino R. Abes	Non-Executive Director			•
Abdullah O. Al-Baiz	Non-Executive Director			•
Herminio S. Aquino	Non-Executive Director		•	
Michael T. Defensor	Non-Executive Director		•	
Nabilah M. Al-Tunisi	Non-Executive Director	•	•	
Alberto A. Pedrosa	Non-Executive Director	•		
Douhan H. Al-Douhan	Independent Director	•	•	•
Emilia T. Boncodin	Independent Director	•	•	•

** Mr. Buainain resigned on February 7, 2008 and was replaced by Mr. Abdallah I. Al-Saadan on February 29, 2008.*

2. Compensation

The Compensation Committee is composed of seven members, with the Chairman of the Board and the President acting as Committee Chairman and Vice-Chairman, respectively, but without voting rights. The Committee considers and approves the salary structure as well as the promotion of Division Heads/Vice Presidents. It likewise evaluates other compensation policies and corporate benefits plans to ensure that remuneration and other employee benefits are adequate and competitive.

It takes into consideration the conduct of compensation/benefits benchmarking activities or surveys in determining the competitiveness of compensation packages for directors, officers and employees. No director or officer can decide or allow any adjustment in his/her own remuneration.

The Committee conducted several meetings in 2007. Materials were promptly distributed to the members prior to the meetings.

3. Audit

The Audit Committee has four members, with an Independent Director as Chairman. The Committee assesses the effectiveness of the company's internal control systems and adherence to its policies as well as laws and regulations that affect Petron's business. It reviews the activities of the Internal Audit Manager and the External Auditor.

In July 2007, the Committee recommended to the Board and the shareholders the appointment of Punongbayan & Araullo (P&A) as Petron's independent auditors for three years (2007-2009), subject to a yearly performance appraisal by the company. In coordination with the Internal Audit Manager, P&A reviewed the results of the tax compliance audit that was conducted in 2006 and the quarterly and annual financial statements of Petron and its Subsidiaries which were endorsed to and approved by the Board. The Audit Committee, on a regular basis, monitors the company's compliance with laws affecting its business operations, including new financial reporting standards.

RAISING THE LEVEL OF GOOD CORPORATE GOVERNANCE

Petron's commitment is not only a matter of providing directors and senior officers with continuing updates and developments in corporate governance and best practices thru attendance in directorship programs. The provision of prompt and accurate communication to its stakeholders of material information affecting Petron's business is considered equally important. Ultimately, the practice of greater transparency promotes good governance and investor confidence.

The company has the Stockholders Services group that takes care of shareholder concerns and queries and prepares the logistics for annual meetings. For the 2007 stockholders' meeting, the Public Affairs Department established a Help Desk to facilitate requests of attending stockholders, in addition to the usual telephone and mail inquiries. It also invited the Philippine Stock Exchange and the Brokers' Association to answer stockholders' concerns about the stock market and assist those who want to buy additional shares or dispose of their shares.

It also has an Investor Relations group which provides updated and relevant information to analysts, fund managers and other stakeholders, including quarterly performance results and financial statements. It also conducts company briefings with stock analysts, banks and fund managers, both local and foreign.

RISK MANAGEMENT

Petron Corporation follows an enterprise-wide risk management framework for identifying, mapping 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 division mandated to conduct regular assessments of its risk profile and formulate action plans for managing identified risks. As Petron's operation is an integrated value chain, risks may emanate from every process and some could cut across divisions. The results of these activities flow up to the Management Committee and eventually, the Board through the company's annual business planning process and quarterly updates on major risks and mitigation strategies.

Oversight and technical assistance is likewise provided by corporate units with special duties. The adequacy of risk management policies and the determination of the risk appetite pass through the Risk and Investment Management Committee, which is composed of the Chairman of the Board, President, and Vice Presidents of the company. The Financial Analysis Planning and Risk Management Department is mandated with the overall coordination and development of the enterprise-wide risk management process. A cross-functional Commodity Risk Management Committee oversees crude oil and petroleum product hedging transactions. The Financial Risk Management Unit is in charge of foreign exchange hedging transactions. The Transaction Management Unit provides backroom support for all hedging transactions. The Health, Safety and Environment Department oversees compliance with the domestic and international standards and manages risks related to health, safety and environment. The Internal Audit Department has been tasked with the implementation of a risk-based auditing.

RECOGNITION

Petron has received recognition from the ICD for its corporate governance practices. Since the start of its Corporate Governance Scorecard in 2005, the ICD has named Petron as one of the country's Best-Governed Publicly-Listed Companies for three years in a row, with the number of participants increasing from 49 in 2005 to 138 publicly-listed companies in 2007. The rating is premised on five categories, namely: Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders in Corporate Governance, Disclosure & Transparency and Board Responsibility. For 2007, Petron scored 100% in two categories, namely: Equitable Treatment of Shareholders and Role of Stakeholders in Corporate Governance, and higher than average score in the three other categories.

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 statements, the independence and overall direction of the internal audit function, and the selection and performance of the external auditor.

In the performance of our responsibilities, we report that in 2007:

- We reviewed and discussed with Controllers management the quarterly and annual financial statements of Petron Corporation and Subsidiaries and endorsed these for approval by the Board.
- For greater transparency and in accordance with good corporate governance practice, the Board of Directors decided to change the company's external auditors, SGV & Co., whose services have been engaged by Petron for 13 consecutive years. Based on the evaluation of technical and financial proposals submitted by the next 3 biggest accounting firms in the country, the Committee recommended to the Board and the shareholders the appointment of Punongbayan & Araullo as Petron's independent auditors for 2007-2009, subject to yearly performance appraisal and contract renewal.
- The independent auditors, Punongbayan & Araullo, presented to and discussed with the Committee the scope and timing of their annual audit plan, audit methodology, and focus areas related to their audit of the 2007 financial statements, including the new accounting standards that are effective in 2007 and subsequent years.
- The Company's former external auditors, SGV & Co. briefed the members of the Audit Committee on the new accounting standards that were adopted by Petron in 2006 and their impact on the financial statements.
- The Audit Committee reviewed with SGV & Co. the external auditors' audit observations and recommendations on the Company's internal controls and management's response to the issues raised relating to the audit of the 2006 financial statements.
- The Committee reviewed with the Internal Audit Manager and approved the annual internal audit plan and satisfied itself to the independence of the internal audit function.
- We reviewed on a quarterly basis the Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period.
- The Committee reviewed with the Internal Audit Manager the results of the tax compliance audit that was conducted by Punongbayan & Araullo in 2006 covering 2005 accounts and discussed improvement areas highlighted and corrective measures taken by management.
- The Committee reviewed and approved the engagement of services and related fees of an outsourced IT audit service provided.

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 2007.

Emilia T. Boncodin
Chairperson
Independent Director

Douhan H. Al-Douhan
Independent Director

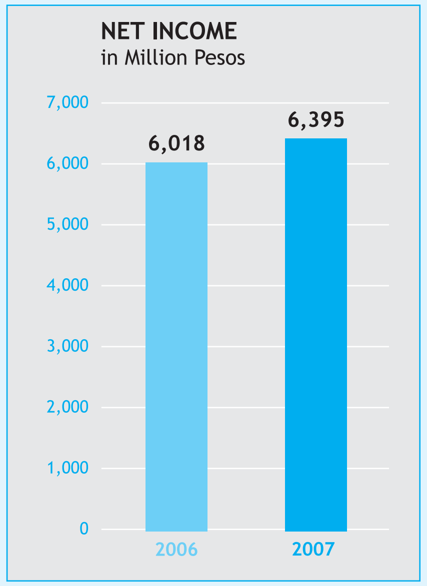
Michael T. Defensor
(elected November 9, 2007)

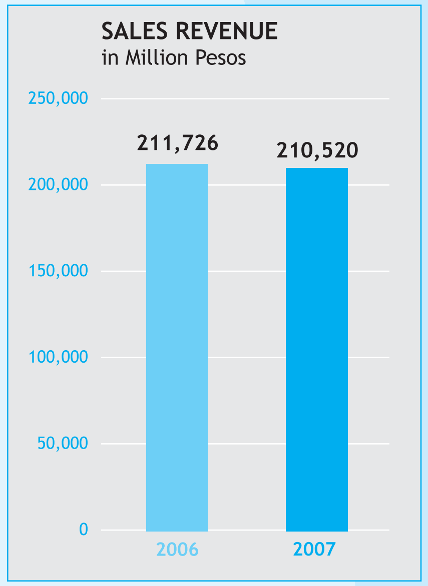
Nabilah M. Al-Tunisi

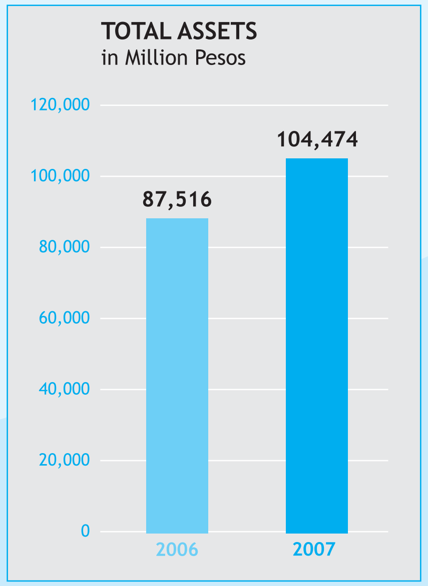
Herminio S. Aquino
(resigned October 31, 2007)

Financial Highlights

In Million Pesos, Except per Share Amount	2007	2006
Sales	210,520	211,726
Net Income (loss)	6,395	6,018
Operating Expenses	5,325	4,482
Income from Operations	9,908	9,730
Plant, Property & Equipment	34,128	25,153
Total Assets	104,474	87,516
Total Equity	37,788	32,253
(In Pesos Per Share)		
Earnings Per Share	0.68	0.64
Cash Dividend Declared	0.10	0.10







Financial Highlights

SELECTED FINANCIAL AND OPERATING INFORMATION

The following information, as it relates to 2007, was derived from the company's Consolidated Audited Financial Statements. The selected information should be read in conjunction with the Audited Financial Report and Related Notes as presented in pages 36-76.

Consolidated Statements of Income Data				**Million Pesos**
	2004	2005	2006	**2007**
Net revenues	147,425	191,489	211,726	**210,520**
EBITDA	8,572	12,251	12,699	**13,336**
Income for the period	4,101	6,051	6,018	**6,395**
Income attributable to minority interest	7	7	7	**18**
Income attributable to shareholders of parent company	4,094	6,044	6,011	**6,377**

Consolidated Statements of Financial Position Data				**Million Pesos**
	2004	2005	2006	**2007**
Total Assets	63,129	68,886	87,516	**104,474**
Gross Debt [1]	27,299	28,338	41,047	**46,564**
Net Debt [2]	22,807	24,023	29,029	**36,439**
Share capital	9,375	9,375	9,375	**9,375**
Equity attributable to minority interest	110	108	115	**133**
Equity attributable to shareholders of parent company	12,838	18,132	22,763	**28,280**

Consolidated Statements of Cash Flows Data				**Million Pesos**
	2004	2005	2006	**2007**
Operating cash flows	191	1,963	3,075	**5,663**
Capital investments	5,463	2,313	5,052	**11,477**
Cash dividends	1,846	925	928	**927**

Per Share Data				**Peso**
	2004	2005	2006	**2007**
Net revenues	15.73	20.43	22.58	**22.46**
EBITDA	0.91	1.31	1.36	**1.42**
Income for the period	0.44	0.64	0.64	**0.68**
Operating cash flows	0.02	0.21	0.33	**0.60**
Book value	2.38	2.95	3.44	**4.03**
Dividend	0.20	0.10	0.10	**0.10**

Financial				**Ratios**
	2004	2005	2006	**2007**
Current ratio (x)	1.2	1.3	1.5	**1.3**
Debt-Equity ratio (x)	1.8	1.5	1.7	**1.8**
Interest coverage (x)	4.8	5.7	4.6	**4.9**
Cash flow interest coverage (x)	0.1	0.9	1.1	**2.1**
Return on sales (%)	2.8	3.2	2.8	**3.0**

Financial Highlights

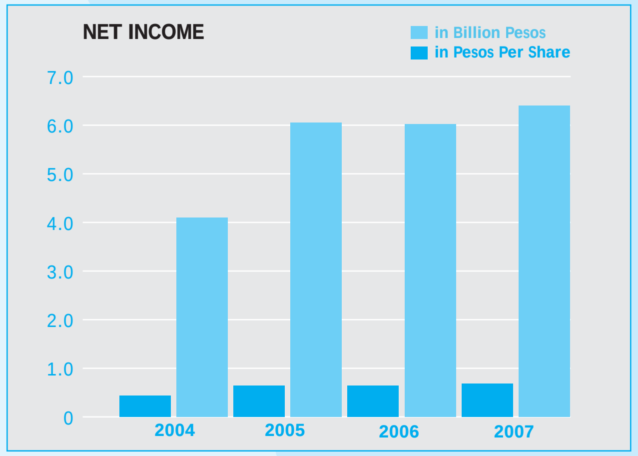
RECORD HIGH PROFITS

Your company realized after tax income of ₱6.40 billion in 2007, posting a 16% average annual growth rate (AAGR) since 2004. Accordingly, the earnings per share (EPS) of 68 centavos was the highest level recorded in its history.

This strong performance was achieved despite the combined effect of the volatility in crude oil prices, as well as the early retirement of its Thermofor Catalytic Cracker (TCC). The TCC unit was retired to facilitate its conversion to a Fluidized Bed Catalytic Cracker (FCC), which would enable your company to produce more high-valued petroleum products.

In addition, provision for income tax increased with the expiration in December 2006 of the income tax holiday on mixed xylene sales.

	2004	2005	2006	2007
Provision for income tax (million pesos)	1,323	2,091	1,886	2,955
Effective tax rate (%)	24	26	24	32



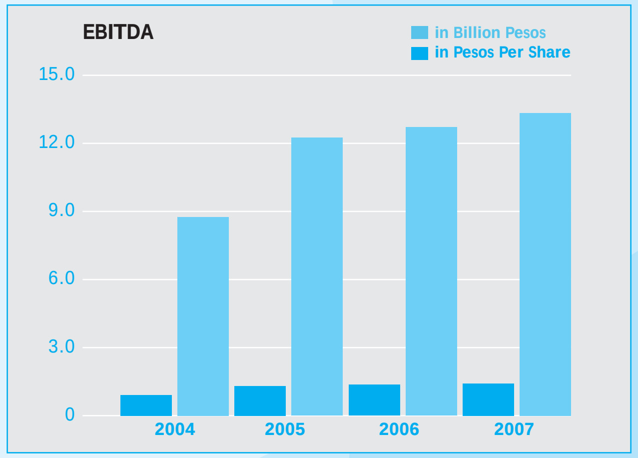
SUSTAINED IMPROVEMENT IN OPERATING EFFICIENCY

Earnings before interest, taxes, depreciation and amortization (EBITDA) continued to increase, registering a 16% AAGR since 2004, as your company consistently focused on operating efficiencies.

Gross margin rate in 2007 improved to 7.2%, from the 2006 level of 6.7%. The growth came from higher domestic sales, in addition to lower international freight as well as domestic transshipment costs.

Aggregate sales volume slightly grew, from 52.00 million barrels in 2006 to 52.26 million barrels in 2007, as domestic sales increased by 2% or 0.75 million barrels from 2006 level, to compensate for the 5% or 0.49 million barrels decline in export sales. Furthermore, with the increase in reforming capacity of your refinery's Continuous Catalytic Reformer (CCR) unit coupled with the shorter maintenance downtime, production of mixed xylene was upgraded from solvent to isomer grade starting April. As a result, export value of the product was enhanced.

On the other hand, while the main purpose of the contracts of affreightment (COA) was to ensure availability of terminal-accredited vessels, significant savings were realized as contracted rates were consistently lower than market. Domestic transshipment costs, including product losses, similarly decreased as various improvement programs were implemented.



Meanwhile, net interest and other charges went down by 69% to ₱0.56 billion largely due to higher foreign exchange gain from dollar-denominated transactions in addition to the drop in average borrowing costs on short-term loans.

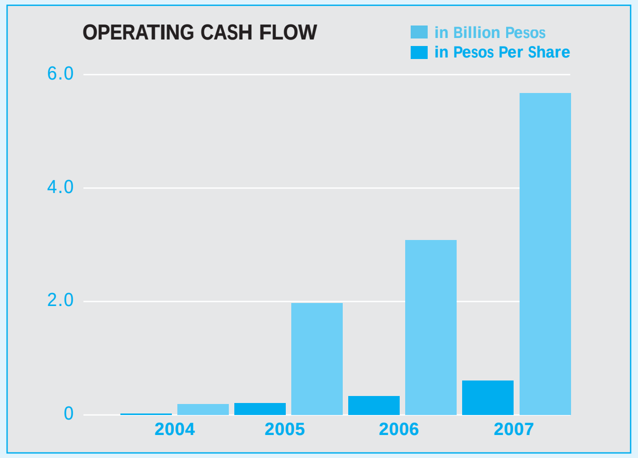
Financial Highlights

ROBUST OPERATING CASH GENERATION

With the strong EBITDA, your company's cash flow from its operating activities soared to ₱5.67 billion. Augmented with the proceeds from a ₱2 billion club loan, your company was able to fund its investments during the year, amounting to ₱11.48 billion. Bulk of its investments were for the construction costs of its Petro Fluidized Catalytic Cracker (PetroFCC) as well as an additional refinery facility that would extract other petrochemicals (BTX unit). Mechanical completion of the PetroFCC, which includes a new Propylene Recovery Unit (PRU) is targeted in the first quarter of 2008; while the construction of the BTX unit, which will produce aromatics such as benzene and toluene and expand the company's mixed xylene production capacity, is to be completed by the end of 2008.

Moreover, the robust earnings improved ratio of earnings to interest.

No. of times	2004	2005	2006	2007
EBIT	4.0	4.6	3.6	3.7
EBITDA	4.8	5.7	4.6	4.9
Operating Cash Flow	0.1	0.9	1.1	2.1



HEALTHY FINANCIAL CONDITION AND LIQUIDITY

Your company's financial condition continued to be healthy.

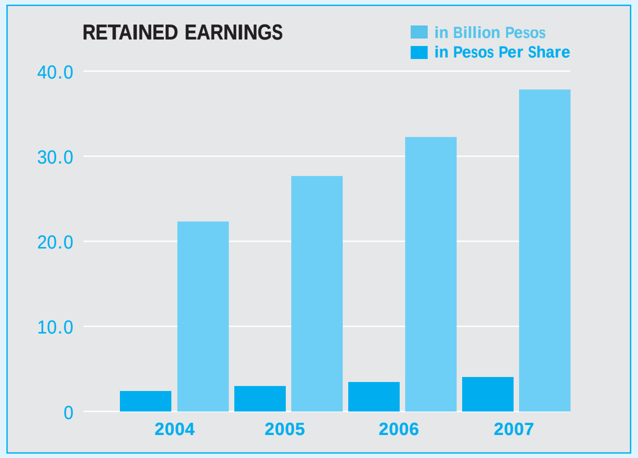
Total resources as of end 2007 were at ₱104.47 billion, recording a 19% growth from the end 2006 level and an AAGR of 18% since 2004.

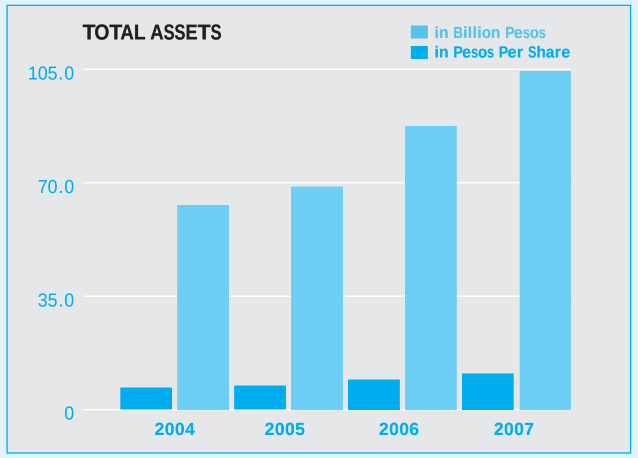
The main drivers of the ₱16.96 billion increment were:

- Receivables rose by ₱2.24 billion to ₱17.87 billion on account largely of higher revenues posted for exports.
- Inventories increased by ₱3.98 billion to ₱30.27 billion despite the lower volume. This was attributed to the spike in crude cost (Dubai FOB average: 2007 – $68.27 vs. 2006 - $61.54).
- Property, Plant and Equipment grew by ₱8.98 billion to ₱34.13 billion mainly representing investments in the Philippines' first petrochemical feedstock facilities.

Meanwhile, Short-term Loans and Suppliers' Credit went up by ₱10.98 billion as a consequence of the spike in crude FOB price per barrel. Despite the increase in liabilities, debt-equity ratio of 1.8 times versus the 1.7 times posted in 2006 was well within the creditor banks' limit.

On the other hand, book value per share showed 17% improvement at ₱4.03 from end-2006 level of ₱3.44, or a 19% AAGR.





Statements 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, 2007, 2006 and 2005. The financial statements have been prepared in the 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.

Nicasio I. Alcantara
Chairman and Chief Executive Officer

Kamal M. Al-Yahya
President

Antonio G. Pelayo
Vice President – Finance and Subsidiaries

Ma. Concepcion F. de Claro
Controller

Independent Auditors' Report

PUNONGBAYAN & ARAULLO

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Philippines
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Fax No.: + 63 2 886-5506; + 63 2 886-5507
www.punongbayan-araullo.com

The Board of Directors
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 statement of financial position as at December 31, 2007, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of Petron Corporation and subsidiaries for the years ended December 31,2006 and 2005 were audited by other auditors whose report, dated April 3, 2007, expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 audit. We conducted our audit 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 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 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 2007 consolidated financial statements present fairly, in all material respects, the financial position of Petron Corporation and subsidiaries as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Dalisay B. Duque
Partner
CPA Reg. No. 0022692
TIN 140-240-854
PTR No. 0986655, January 4, 2008, Makati City
SEC Accreditation No. 0012-AR-1
BIR AN 08-002511-9-2005 (Dec. 27, 2005 to 2008)

March 26, 2008

Consolidated Statements of Financial Position

(With Comparative Figures For 2006 And 2005)
(Amounts In Million Pesos)

	Notes	December 31 2007	2006	2005
ASSETS				
Current Assets				
Cash and cash equivalents	4	**₱9,732**	₱11,735	₱3,940
Financial assets at fair value through profit or loss	5	**229**	180	116
Available-for-sale investments	6	**164**	103	259
Receivables - net	7	**17,869**	15,629	11,863
Inventories - net	8	**30,271**	26,289	27,018
Other current assets		**10,672**	7,054	1,297
Total Current Assets		**68,937**	60,990	44,493
Noncurrent Assets				
Available-for-sale investments	6	**468**	529	327
Property, plant and equipment - net	9	**34,128**	25,153	22,570
Investment properties - net	10	**202**	222	235
Other noncurrent assets	11	**739**	622	1,261
Total Noncurrent Assets		**35,537**	26,526	24,393
TOTAL ASSETS		**₱104,474**	₱87,516	₱68,886
LIABILITIES AND EQUITY				
Current Liabilities				
Short-term loans	12	**₱33,784**	₱28,135	₱21,407
Liabilities for crude oil and petroleum product importation	23	**12,873**	7,541	7,911
Accounts payable and accrued expenses	13	**4,544**	3,731	2,626
Income tax payable		**523**	452	183
Current portion of long-term debt - net	14	**1,604**	1,633	1,906
Total Current Liabilities		**53,328**	41,492	34,033
Noncurrent Liabilities				
Long-term debt – net of current portion	14	**11,176**	11,279	5,025
Deferred tax liabilities – net	22	**1,268**	1,443	1,516
Other noncurrent liabilities	15	**914**	1,049	697
Total Noncurrent Liabilities		**13,358**	13,771	7,238
Total Liabilities		**66,686**	55,263	41,271
Equity Attributable to Equity Holders of the Parent				
Capital stock	16	**9,375**	9,375	9,375
Retained earnings:	16			
Appropriated		**21,172**	17,021	11,652
Unappropriated		**7,520**	6,232	6,352
Other reserves		**(412)**	(490)	128
Equity Attributable to Equity Holders of the Parent		**37,655**	32,138	27,507
Minority Interest		**133**	115	108
Total Equity		**37,788**	32,253	27,615
TOTAL LIABILITIES AND EQUITY		**₱104,474**	₱87,516	₱68,886

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

(With Comparative Figures For 2006 And 2005)
(Amounts In Million Pesos, Except Per Share Amounts)

	Notes	Years Ended December 31		
		2007	2006	2005
SALES	26	**₱210,520**	₱211,726	₱191,489
COST OF GOODS SOLD	17	**195,287**	197,514	177,210
GROSS PROFIT		**15,233**	14,212	14,279
SELLING AND ADMINISTRATIVE EXPENSES	18	**(5,325)**	(4,482)	(4,527)
INTEREST EXPENSE	21	**(1,814)**	(2,684)	(2,091)
INTEREST INCOME	21	**344**	371	317
OTHERS - Net	21	**912**	487	164
INCOME BEFORE TAX		**9,350**	7,904	8,142
TAX EXPENSE	22/32			
Current		**3,165**	1,723	2,057
Deferred		**(210)**	163	34
		2,955	1,886	2,091
NET INCOME		**₱6,395**	₱6,018	₱6,051
Attributable to:				
Equity holders of the parent	27	**₱6,377**	₱6,011	₱6,044
Minority interest		**18**	7	7
		₱6,395	₱6,018	₱6,051
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY - BASIC AND DILUTED	27	**₱0.68**	₱0.64	₱0.64

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(With Comparative Figures For 2006 And 2005)
(Amounts In Million Pesos)

	Notes	Years Ended December 31		
		2007	2006	2005
NET INCOME FOR THE YEAR		**₱6,395**	₱6,018	₱6,051
OTHER COMPREHENSIVE INCOME				
Actuarial gain (loss) on defined pension plan (net of tax effects of ₱38, ₱242 and ₱133 in 2007, 2006 and 2005, respectively)	25	**88**	(633)	(185)
Unrealized fair value gain (loss) on available-for-sale investments (net of tax effects of ₱5, ₱8 and ₱4 in 2007, 2006 and 2005, respectively)	6	**(9)**	15	4
Exchange difference in translating foreign operations		**(1)**	–	–
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX		**78**	(618)	(181)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**₱6,473**	₱5,400	₱5,870
Attributable to:				
Equity holders of the parent		**₱6,455**	₱5,393	₱5,863
Minority interest		**18**	7	7
		₱6,473	₱5,400	₱5,870

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes In Equity

(With Comparative Figures For 2006 And 2005)
(Amounts In Million Pesos)

		Equity Attributable to Holders of the Parent						
			Retained Earnings					
	Notes	Capital Stock	Appropriated	Unappropriated	Other Reserves	Total	Minority Interest	Total Equity
Balance at January 1, 2007	16	₱9,375	₱17,021	₱6,232	(₱490)	₱32,138	₱115	₱32,253
Total comprehensive income for the year		–	–	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
Balance at January 1, 2006		₱9,375	₱11,652	₱6,352	₱128	₱27,507	₱108	₱27,615
Total comprehensive income for the year		–	–	6,011	(618)	5,393	7	5,400
Actuarial gains due to limit on recognized plan asset (net of tax effect of ₱94)	25	–	–	176	–	176	–	176
Appropriation for capital projects	16	–	5,369	(5,369)	–	–	–	–
Cash dividends - ₱0.10 per share	16	–	–	(938)	–	(938)	–	(938)
Balance at December 31, 2006		₱9,375	₱17,021	₱6,232	(₱490)	₱32,138	₱115	₱32,253
Balance at January 1, 2005		₱9,375	₱6,906	₱5,584	₱309	₱22,174	₱101	₱22,275
Total comprehensive income for the year		–	–	6,044	(181)	5,863	7	5,870
Actuarial gains due to limit on recognized plan asset (net of tax effect of ₱212)	25	–	–	408	–	408	–	408
Appropriation for capital projects	16	–	4,746	(4,746)	–	–	–	–
Cash dividends - ₱0.10 per share	16	–	–	(938)	–	(938)	–	(938)
Balance at December 31, 2005		₱9,375	₱11,652	₱6,352	₱128	₱27,507	₱108	₱27,615

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(With Comparative Figures For 2006 And 2005)
(Amounts In Million Pesos)

	Notes	Years Ended December 31		
		2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before tax		**₱9,350**	₱7,904	₱8,142
Adjustments for:				
Depreciation and amortization	20	**2,516**	2,482	2,335
Interest expense	21	**1,814**	2,684	2,091
Unrealized foreign exchange gain – net		**(520)**	(382)	(270)
Interest income	21	**(344)**	(371)	(317)
Others		**(81)**	(122)	(111)
Operating income before working capital changes		**12,735**	12,195	11,870
Changes in operating assets and liabilities	28	**(2,637)**	(5,635)	(6,326)
Interest paid		**(1,680)**	(2,383)	(2,047)
Income taxes paid		**(3,098)**	(1,454)	(1,850)
Interest received		**343**	352	316
Net cash provided by operating activities		**5,663**	3,075	1,963
CASH FLOWS FROM INVESTING ACTIVITIES				
Disposals of (Additions to):				
Property, plant and equipment	9	**(11,477)**	(5,052)	(2,313)
Investment properties	10	**6**	–	(16)
Decrease (increase) in:				
Other receivables	7	**(956)**	(2,590)	9
Other noncurrent assets		**5**	(61)	(67)
Reductions from (additions to):				
Financial assets at fair value through profit or loss		**-**	1	2
Available-for-sale investments		**(9)**	(24)	(249)
Net cash used in investing activities		**(12,431)**	(7,726)	(2,634)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans		**69,625**	157,460	78,246
Payments of:				
Loans		**(63,789)**	(144,433)	(76,879)
Cash dividends		**(927)**	(928)	(925)
Others		**(134)**	378	78
Net cash provided by financing activities		**4,775**	12,477	520
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(10)**	(31)	(13)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,003)**	7,795	(164)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**11,735**	3,940	4,104
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱9,732**	₱11,735	₱3,940

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(With Comparative Figures For 2006 And 2005)
(Amounts In Million Pesos, Except Par Value, Shares 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, and mixed xylene. 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 more than 1,260 service stations, Petron retail gasoline, diesel, and kerosene to motorists and public transport operators. Petron also sells its LPG brand "Gasul" to households and other consumers through an extensive dealership network.

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

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

Petron is a public company under Section 17.2 of the Securities Regulation Code. The Philippine National Oil Company (PNOC) and the Aramco Overseas Company B.V. (AOC) each owns a 40% share of equity. The remaining 20% is held by more than 180,000 stockholders. On March 14, 2008, AOC entered into a share purchase agreement with SEA Refinery Holdings and subsequently issued a Transfer Notice to PNOC to signify its intent to sell its 40% equity stake in Petron. SEA Refinery Holdings is a company owned by funds managed by Ashmore Group.

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 is Petron MegaPlaza, 358 Sen. Gil Puyat Avenue, Makati City.

The accompanying consolidated financial statements for the year ended December 31, 2007 (including comparatives for the years ended December 31, 2006 and 2005) were approved and authorized for issue by the Board of Directors (BOD) on March 26, 2008.

2. Summary of Significant Accounting Policies

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.

Reclassifications
Certain accounts in the 2006 and 2005 financial statements were reclassified to conform to the 2007 presentation. Specifically, the changes in equity previously presented as part of the notes to financial statements were presented in a separate statement in accordance with the requirements of PAS 1 *(Revised 2007), Presentation of Financial Statements.*

Statement of Compliance
The consolidated financial statements of the Company were prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial years, except for the policies related to the following new and amended PFRS and Philippine Accounting Standard (PAS) effective in 2007. Adoption of these new and amended standards did not have any significant effect on the Company's consolidated financial statements. These, however, required additional disclosures on the consolidated financial statements.

- *PFRS 7, Financial Instruments: Disclosures,* became effective for financial years beginning on or after January 1, 2007. The standard introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions,* and the disclosure requirements of PAS 32, *Financial Instruments: Disclosure and Presentation.* This standard is applicable to all entities reporting under PFRS. PFRS 7 disclosures are required to be made for all periods presented.

  The Company availed of the transitional relief granted by the Financial Reporting Standards Council and presented only the relevant disclosures required by PFRS 7 for 2007 and 2006.

- *Amendment to PAS 1, Presentation of Financial Statements,* became effective for financial years beginning on or after January 1, 2007. The amendment introduces disclosures about the level of an entity's capital and how it manages capital.

  Additional disclosures required by amendment to PAS 1 are included in Note 29.

  The following Philippine Interpretation is effective in 2007 but is not relevant to the Company:

- *Philippine Interpretation IFRIC 7, Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies,* became effective for financial years beginning on or after March 1, 2006. This interpretation provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax.

  The Company adopted the following Philippine Interpretations and amended/ revised standards.

- *PFRS 8, Operating Segments,* will become effective on January 1, 2009 and will replace PAS 14, Segment Reporting. The standard requires an entity to disclose information about the nature and financial effects of the types of business activities in which the Company engages and the economic environment it operates following a management approach to reporting segment information.

  The Company effectively adopted this standard early starting 2003 as the Company is significantly in compliance with the required additional disclosures of this standard.

- *PAS 1 (Revised 2007), Presentation of Financial Statements,* which will become 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 (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). 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 (or balance sheet) 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 financial statement nomenclature were made in 2007.

- *PAS 23, Borrowing Costs* will become effective on January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

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

- *Philippine Interpretation IFRIC 8, Scope of PFRS 2,* became effective for financial years beginning on or after May 1, 2006. This interpretation requires PFRS 2, *Share-based Payment,* to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

  This interpretation was early adopted in 2006 and it did not have any impact on the financial statements since the Company has no share-based transactions.

- *Philippine Interpretation IFRIC 9, Re-assessment of Embedded Derivatives,* became effective for financial years beginning on or after June 1, 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with re-assessment only if there is a change to the contract that significantly modifies the cash flows.

  This interpretation was early adopted in 2006 and did not have any impact on the financial statements of the Company as there were no changes to the terms of the Company's contracts.

- *Philippine Interpretation IFRIC 10, Interim Financial Reporting and Impairment,* which became effective for financial years beginning on or after November 1, 2006, provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS investments.

  This interpretation was early adopted in 2006 and it did not have any impact on the financial statements of the Company because no impairment losses were required to be recognized in an interim period that was reversed at or subsequent to the statement of financial position date.

  The following new and revised standards and interpretations have been approved but are not yet effective:

- *Philippine Interpretation IFRIC 11, PFRS 2 - Company and Treasury Share Transactions* will become effective on January 1, 2008. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed.

  This interpretation will have no significant impact on the Company since it does not have share-based transactions either to employees or third parties.

- *Philippine Interpretation IFRIC 12, Service Concession Arrangement,* will become effective on January 1, 2008. This interpretation covers contractual arrangements arising from public-to-private service concessions arrangements if control of the assets remain in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure.

  This interpretation will have no impact on the financial statements of the Company as this is not relevant to the Company's operations.

- *Philippine Interpretation IFRIC 13, Customer Loyalty Programs,* will become effective on January 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.

Notes to Consolidated Financial Statements

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The Company is still in the process of assessing the impact of this interpretation on the financial statements.

- *Philippine Interpretation IFRIC 14, PAS 19, Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* will become effective on January 1, 2008. This interpretation provides guidance on how to assess the limit on the amounts of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, Employee Benefits. It also explains how pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement.

  The Company is currently assessing the impact of this interpretation on the financial statements of the Company.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting 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.

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

The results of subsidiaries acquired or disposed during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Minority Interests
Minority 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 within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisitions of minority 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.

The consolidated subsidiaries include:

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	79.95	Philippines

In the past, Petron, being partly foreign-owned, was not allowed by the Retail Trade Law to engage in direct retailing. Upon enactment of the Retail Trade Liberalization Act (RTLA) in 2000, the Philippine Board of Investments (BOI) approved Petron's application to establish a retail enterprise, paving the way for the establishment of a direct-retailing subsidiary, PMC, on January 27, 2004. PMC operates COCO service stations. The COCO service stations play a major part in launching market initiatives to strengthen the "Petron" brand and give the Company the opportunity to quickly introduce innovations beyond the present services that are available in its service stations.

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

Financial Assets and Liabilities
Financial assets and liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

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 statement of financial position 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.

The Company recognizes a financial asset or liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument and de-recognizes a financial asset when it no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all of the cash flows attributable to the instrument are passed to an independent third party. A financial liability (or a part of a financial liability) is de-recognized when the obligation is extinguished. In the case of a regular way purchase or sale of financial assets, recognition and de-recognition, as applicable, is done using settlement date accounting.

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. Distributions to the 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, 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 the 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.

Derivatives are also categorized as held at FVPL, except those derivatives designated and considered as effective hedging instruments.

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 of the payment has been established. Classified as financial assets at FVPL are the Company's investments in marketable equity securities and proprietary membership shares (see Note 5). The Company has no financial liabilities at FVPL as of December 31, 2007, 2006 and 2005.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Such 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. The losses arising from impairment of such financial assets are recognized under "Selling and Administrative Expenses" in the consolidated statement of income.

Loans and receivables are included in current assets if maturity is within 12 months from the statement of financial position date. Otherwise, these are classified as noncurrent assets.

Classified as loans and receivables are the Company's trade and other receivables (see Note 7).

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, 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 and 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 statement of financial position date and as noncurrent assets if maturity date is more than a year.

The Company has no HTM investments as of December 31, 2007, 2006 and 2005.

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 investments, money market papers and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments, net of tax, are excluded from reported earnings and are reported under "Other reserves" account in the statement of changes in equity, until the investment is de-recognized or until the investment is determined to be impaired at which time the cumulative gains or losses previously reported in equity are included in the consolidated statement of 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. Interest earned and dividends earned on holding AFS investments are recognized in "Other income" account in the consolidated statement of income when the right of the 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 6).

Derivative Financial Instruments. 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 as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions under hedge accounting. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately 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.

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Cash and Cash Equivalents
Cash includes cash on hand and in banks. 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.

Interest-Bearing Loans and Borrowings
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings 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.

Impairment of Financial Assets
The Company assesses at each statement of financial position date whether a financial asset or a group of financial assets is impaired.

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, 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. Reversals in respect of equity instruments classified as AFS investments are not recognized in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

De-recognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is 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 of completion and/or marketing and distribution. 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.

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 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 of 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 (see Note 21).

Results of operations as well as financial position balances of PDSI were less than 1% of the consolidated values and as such were no longer separately disclosed.

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 each statement of financial position date.

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 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 transaction 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 (included under "Other noncurrent assets" account in the statement of financial position) 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.

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Expenses incurred for research and development of internal projects and internally developed patents and copyrights are charged to current operations and presented as part of "Others" under "Selling and Administrative Expenses" account in the consolidated statement of income.

As of December 31, 2007, new products of the Company include Sprint 4T Enduro, Sprint 4T Rider, Sprint 4T Extra and Hydrotur SW 68 while product enhancements and research activities are the New Petron XCS and the use of Coco Methyl Ester (CME) in the Company's diesel fuel.

The Company has existing and pending trademark registrations for its products for a term of ten (10) to twenty (20) years. It also has copyrights for some of its products like the 7-kg LPG container, Gasulito with stylized letter "P" and two (2) flames, Powerburn 2T, and Petron New Logo (22 styles) as of December 31, 2007. Copyrights endure during the lifetime of the creator and for another 50 years after death.

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 the 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 the statement of 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.

Borrowing Costs
Borrowing costs are generally expensed as incurred. For financial reporting purposes, interest on loans used to finance capital projects is capitalized as part of project costs (shown as "Construction in-progress" under the "Property, Plant and Equipment" account in the consolidated statement of financial position) during construction period. Capitalization of interest 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.

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 each financial position date, 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
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.

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).

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 the significant risks and rewards of ownership of the goods have passed to the buyer.

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 when the shareholders' right to receive the payment is established.

Expense
Cost and expenses are recognized in the statement of income upon utilization of the service or at the date they are incurred. Except for borrowing costs attributable to qualifying assets, all interest expense are reported on an accrual basis.

Operating Leases
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.

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirement of Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease.*

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.

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.

Foreign Currency-Denominated Transactions and Translations
Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using year-end exchange rates. Exchange gains or losses arising from foreign currency-denominated transactions are credited or charged to current operations.

The functional currency of Ovincor, a foreign subsidiary, is the Philippine peso because the Company assessed that the activities of its foreign subsidiary are carried out as an extension of the Parent Company.

Income Taxes

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 statement of financial position date.

Deferred Tax. Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax

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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 each statement of financial position date 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 each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Tax expense relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted at the statement of financial position 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.

Sales Tax. Revenues, expenses and assets are recognized net of the amount of sales tax 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 "Receivables" or "Accounts payable and accrued expenses" account in the consolidated statement of financial position.

Capital
Capital stock is determined using 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 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 pension plan.

Earnings Per Share Attributable to the Equity Holders of the Parent
Basic earnings per share is computed by dividing net income 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.

Segments
The Company's operating businesses are recognized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

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

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Subsequent Events
Any post-year-end events that provide additional information about the Company's financial position at the statement of financial position date (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.

3. Significant Accounting Judgments, Estimates and Assumptions

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

Total rent income amounted to ₱325, ₱345 and ₱280 in 2007, 2006 and 2005, respectively (see Note 21); while rent expense amounted to ₱395, ₱381 and ₱306 in 2007, 2006 and 2005, respectively (see Note 18).

Fair Value 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 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. 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 aggregate fair value of the financial assets at FVPL and AFS investments amounted to ₱861, ₱812 and ₱702 as of December 31, 2007, 2006 and 2005, respectively (see Notes 5 and 6).

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.

Estimations and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, 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, the Finance Division ascertains customers who are unable to meet their financial obligations. In these cases, Management uses sound judgment based on the best available facts and circumstances, included but not limited to, the length of relationship with the customers and their payment track record. The amount of impairment loss differ 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 ₱50 and ₱106 in 2007 and 2005, respectively (see Note 18). Receivables written off amounted to ₱3 and ₱4 in 2007 and 2006, respectively (see Note 7). There was no allowance required to be provided in 2006 based on management's evaluation. Receivables, net of allowance for impairment loss, amounted to ₱17,869, ₱15,629 and ₱11,863 as of December 31, 2007, 2006 and 2005, respectively (see Note 7).

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 and ₱93 in 2007 and 2006, respectively, while addition to the allowance for obsolescence account in 2005 amounted to ₱165 (see Note 8). Inventories, net of allowance for obsolescence, amounted to ₱30,271, ₱26,289 and ₱27,018 as of December 31, 2007, 2006 and 2005, respectively (see Note 8).

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 during the year. Property, plant and equipment and investment properties, net of accumulated depreciation and amortization as of December 31, 2007, 2006 and 2005, amounted to ₱34,330, ₱25,375 and ₱22,805, respectively (see Notes 9 and 10).

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Determining 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, ₱202 and ₱250 in 2007, 2006 and 2005, respectively (see Note 10). Management believes that the fair values of the land are not lower than their carrying values as of December 31, 2007, 2006 and 2005.

Impairment of Property, Plant and Equipment and Investment Properties. 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 2007, 2006 and 2005. The aggregate carrying amount of property, plant and equipment and investment properties, net of accumulated depreciation and amortization amounted to ₱34,330, ₱25,375 and ₱22,805 as of December 31, 2007, 2006 and 2005, respectively (see Notes 9 and 10).

Deferred Tax Assets. 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. The Company reviews its deferred tax assets at each financial position date 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, 2007, 2006 and 2005, deferred tax assets amounted to ₱1,309, ₱824 and ₱1,077, respectively, while deferred tax liabilities amounted to ₱2,577, ₱2,267 and ₱2,593, respectively (see Note 22).

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 ₱509, ₱434 and ₱1,137 as of December 31, 2007, 2006 and 2005, respectively (see Notes 11 and 25). Reported under the consolidated statement of comprehensive income are cumulative actuarial gains amounting to ₱126 and ₱356 as of December 31, 2007 and 2005, respectively and cumulative actuarial loss amounting to ₱699 as of December 31, 2006 (see also Note 25).

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 borrowing rates ranging from 6.66% to 9.33% 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 ₱461, ₱660 and ₱298 as of December 31, 2007, 2006 and 2005, respectively (see Note 15), covers only the Company's leased service stations and depots.

Contingencies. The Company currently has various tax assessments and legal claims. The Company develops an estimate of the probable costs for the assessments and resolution 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 2007, 2006 and 2005, respectively (see Note 34).

4. Cash and Cash Equivalents

	2007	2006	2005
Cash on hand and in banks	**₱6,247**	₱3,767	₱3,445
Money market placements	**3,485**	7,968	495
	₱9,732	₱11,735	₱3,940

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 at the respective money market placement rates (see Note 21).

5. Financial Assets at FVPL

	2007	2006	2005
Marketable equity securities	**₱152**	₱131	₱82
Proprietary membership shares	**77**	49	34
	₱229	₱180	₱116

Changes in fair value recognized in 2007, 2006 and 2005 amounted to ₱49, ₱63 and ₱14, respectively (see Note 21).

6. AFS Investments

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

Petrogen's AFS are deposited with the Insurance Commission in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed interest rates of 6.9% to 11.9% in 2007, 8.5% to 14.6% in 2006, and 4.5% to 11.8% in 2005 (see Note 21).

Ovincor's ROP9 Bonds are at the Bank of Bermuda and carried at fair value with fixed interest rate of 8.375% from purchase date, July 2005, to maturity date, March 2009.

Following is the breakdown of investments by contractual maturity dates as ofDecember 31, 2007, 2006 and 2005:

	2007	2006	2005
Due in one year or less	**₱164**	₱103	₱259
Due after one year through five years	**468**	529	327
	₱632	₱632	₱586

The movement of the AFS investments as of December 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Balance at the beginning of year	**₱632**	₱586	₱330
Additions	**138**	302	322
Disposals	**(103)**	(260)	(67)
Amortization of (premium) discount	**(28)**	33	(1)
Fair value gains (loss) – net	**11**	(19)	8
Foreign currency losses	**(18)**	(10)	(6)
Balance at the end of year	**₱632**	₱632	₱586

7. Receivables

	2007	2006	2005
Trade	**₱12,779**	₱11,489	₱11,890
Government	**4,440**	3,847	–
Others	**1,374**	977	820
	18,593	16,313	12,710
Less allowance for impairment loss	**724**	684	847
	₱17,869	₱15,629	₱11,863

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

A reconciliation of the allowance for impairment at the beginning and end of 2007 and 2006 is shown below.

	2007	2006
Balance at beginning of the year	**₱684**	₱847
Additions (see Note 18)	**50**	–
Write off	**(3)**	(4)
Reversal (see Note 21)	**-**	(154)
Interest income on accretion	**(7)**	(5)
Balance at the end of year	**₱724**	₱684

The Company believes that no allowance for impairment is necessary in respect of these past due but unimpaired receivables as determined by reference to past default experience and there has been no significant change in credit quality, as such these amounts are still considered recoverable. The aging profile of past due but unimpaired receivables is as follows:

	2007	2006
Past due but not impaired		
< 30 days	**₱312**	₱188
> 30 days < 60 days	**1,065**	173
> 61 days < 90 days	**343**	191
> 91 days	**761**	617
Total	**₱2,481**	₱1,169

8. Inventories

	2007	2006	2005
At cost:			
Petroleum	**₱12,358**	₱13,829	₱14,658
Crude oil and others	**17,332**	11,905	11,947
At net realizable value - TBA products, materials and supplies	**581**	555	413
	₱30,271	₱26,289	₱27,018

Using the moving-average method, the cost of petroleum, crude oil and other products would have increased by ₱1,183, ₱355 and ₱619 as of December 31, 2007, 2006 and 2005, respectively. Cost of TBA products, material and supplies amounted to ₱875, ₱858 and ₱822 as of December 31, 2007, 2006 and 2005, respectively.

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A reconciliation of the allowance for inventory obsolescence at the beginning and end of 2007, 2006 and 2005 is shown below.

	2007	2006	2005
Balance at beginning of the year	**₱341**	₱434	₱269
Addition	–	–	165
Reversal	**(40)**	(93)	–
Balance at the end of year	**₱301**	₱341	₱434

Reversal of allowance for inventory obsolescence is charged as part of Others under the "Cost of Goods Sold" account (see Note 17). This is due to the: (a) revised formula in computing allowance for obsolescence of lubricants, greases and additives by extending the period of non-movement for both finished products and additives which are necessary for a more accurate and meaningful allowance for functional obsolescence in consideration of a number of factors such as shelf life of finished products, raw material purchasing restrictions, seasonality of product requirement, minimum volume requirements and product upgrade or enhancement cycle; and, (b) implementation of the Asset Policy based program for storehouse materials, a change in operating strategy requiring availability of spares for critical equipments at any given time.

Inventories charged to cost of goods sold (including distribution costs) amounted to ₱191,613, ₱194,263 and ₱173,768 in 2007, 2006 and 2005, respectively (see Note 17).

9. Property, Plant and Equipment

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2007, 2006 and 2005 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, 2007							
Cost	₱13,436	₱18,138	₱3,544	₱2,125	₱3,992	₱15,214	₱56,449
Accumulated depreciation and amortization	(6,445)	(10,300)	(2,802)	(1,640)	(1,134)	–	(22,321)
Net carrying amount	₱6,991	₱7,838	₱742	₱485	₱2,858	₱15,214	₱34,128
December 31, 2006							
Cost	₱13,041	₱18,361	₱3,390	₱2,010	₱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	₱838	₱503	₱2,821	₱4,570	₱25,153

	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, 2005							
Cost	₱8,081	₱22,105	₱3,037	₱1,796	₱3,667	₱1,542	₱40,228
Accumulated depreciation and amortization	(2,496)	(10,536)	(2,330)	(1,351)	(945)	–	(17,658)
Net carrying amount	₱5,585	₱11,569	₱707	₱445	₱2,722	₱1,542	₱22,570
January 1, 2005							
Cost	₱7,601	₱18,423	₱2,698	₱1,656	₱1,749	₱5,688	₱37,815
Accumulated depreciation and amortization	(2,091)	(9,065)	(2,158)	(1,223)	(832)	–	(15,369)
Net carrying amount	₱5,510	₱9,358	₱540	₱433	₱917	₱5,688	₱22,446

A reconciliation of the carrying amounts at the beginning and end of 2007, 2006 and 2005, of property, plant and equipment is shown in the succeeding tables.

	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 Jan. 1, 2007, net of accumulated depreciation and amortization	₱7,212	₱9,209	₱838	₱503	₱2,821	₱4,570	₱25,153
Additions	139	–	4	5	–	11,329	11,477
Disposals	(37)	(279)	(2)	(23)	(12)	–	(353)
Depreciation and amortization charges for the year (see Note 20)	(640)	(1,336)	(252)	(182)	(92)	–	(2,502)
Transfers	317	244	154	182	141	(685)	353
Balance at Dec. 31, 2007, net of accumulated depreciation and amortization	₱6,991	₱7,838	₱742	₱485	₱2,858	₱15,214	₱34,128

	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 Jan. 1, 2006, net of accumulated depreciation and amortization	₱5,585	₱11,569	₱707	₱445	₱2,722	₱1,542	₱22,570
Additions – net of disposals	47	–	18	10	15	4,962	5,052
Reclassification	1,339	(1,339)	–	–	–	–	–
Depreciation and amortization charges for the year (see Note 20)	(599)	(1,369)	(214)	(178)	(109)	–	(2,469)
Transfers	840	348	327	226	193	(1,934)	–
Balance at Dec. 31, 2006, net of accumulated depreciation and amortization	₱7,212	₱9,209	₱838	₱503	₱2,821	₱4,570	₱25,153

	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 Jan. 1, 2005, net of accumulated depreciation and amortization	₱5,510	₱9,358	₱540	₱433	₱917	₱5,688	₱22,446
Additions – net of disposals	195	–	16	8	1,861	368	2,448
Depreciation and amortization charges for the year (see Note 20)	(408)	(1,476)	(177)	(146)	(117)	–	(2,324)
Transfers	288	3,687	328	150	61	(4,514)	–
Balance at Dec. 31, 2005, net of accumulated depreciation and amortization	₱5,585	₱11,569	₱707	₱445	₱2,722	₱1,542	₱22,570

Interest capitalized in 2007, 2006 and 2005 amounted to ₱893, ₱52 and ₱46, respectively. Capitalization rates used for general borrowing peso loans were 5.37% in 2007, 6.843% in 2006 and 6.94% in 2005, while capitalization rates used for specific borrowing peso loans were the actual interest rates for the loan.

The Thermofor Catalytic Cracking Unit (TCCU) was decommissioned in July 2007 to pave the way for the completion of the Petro Fluidized 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 will be operational within the first quarter of 2008.

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10. Investment Properties

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2007, 2006 and 2005 are as follows:

	Land	Office Units	Total
At December 31, 2007			
Cost	₱42	₱263	₱305
Accumulated depreciation	–	(103)	(103)
Net carrying amount	**₱42**	**₱160**	**₱202**
At December 31, 2006			
Cost	₱48	₱263	₱311
Accumulated depreciation	–	(89)	(89)
Net carrying amount	₱48	₱174	₱222
At December 31, 2005			
Cost	₱48	₱263	₱311
Accumulated depreciation	–	(76)	(76)
Net carrying amount	₱48	₱187	₱235

	Land	Office Units	Total
At January 1, 2005			
Cost	₱32	₱263	₱295
Accumulated depreciation	–	(65)	(65)
Net carrying amount	₱32	₱198	₱230

A reconciliation of the carrying amounts at the beginning and end of 2007, 2006 and 2005 of investment property is shown below.

	Land	Office Units	Total
Net carrying amount, at January 1, 2007	₱48	₱174	₱222
Additions	42	–	42
Disposals	(48)	–	(48)
Depreciation for the year (see Note 20)	–	(14)	(14)
Net carrying amount, at December 31, 2007	**₱42**	**₱160**	**₱202**
Net carrying amount, at January 1, 2006	₱48	₱187	₱235
Additions	–	–	–
Depreciation for the year (see Note 20)	–	(13)	(13)
Net carrying amount, at December 31, 2006	₱48	₱174	₱222
Net carrying amount, at January 1, 2005	₱32	₱198	₱230
Additions	16	–	16
Depreciation for the year (see Note 20)	–	(11)	(11)
Net carrying amount, at December 31, 2005	₱48	₱187	₱235

The Company's investment properties consist of office units located in Petron MegaPlaza and parcels of land in various locations intended for service stations. Estimated fair values for such properties, based on recent sale of units within the building and/or sale of units in comparative Grade A buildings, amounted to ₱214, ₱202 and ₱250 in 2007, 2006 and 2005, respectively.

Rental income earned from the investment properties amounted to ₱15, ₱16, and ₱20 in 2007, 2006 and 2005, respectively, which are recognized as part of "Other Income and Charges" account (see Note 21).

There are no other direct selling and administration expenses (i.e., repairs and maintenance) arising from investment properties that generated rent income in 2007, 2006 and 2005.

11. Other Noncurrent Assets

	2007	2006	2005
Net pension plan assets (see Note 25)	**₱509**	₱434	₱1,137
Others-net	**230**	188	124
	₱739	₱622	₱1,261

Others include franchise fees amounting to ₱9, ₱6 and ₱4 in 2007, 2006 and 2005, respectively, net of amortization of franchise fees amounting to ₱0.88, ₱0.83 and ₱0.40 in 2007, 2006 and 2005, respectively. Amortization of franchise fee is included as part of "Others" under "Selling and Administrative" account in the consolidated statement of income (see Note 18).

12. Short-term Loans

This account pertains to unsecured peso loans obtained from local banks with interest ranging from 4% to 7% (see Note 21), intended to fund the importation of crude oil and petroleum products, capital expenditures and working capital requirements.

13. Accounts Payable and Accrued Expenses

	2007	2006	2005
Accounts payable	**₱2,653**	₱1,298	₱472
Accrued expenses	**957**	1,390	1,406
Specific taxes and other taxes payable	**443**	425	336
Others (see Note 31)	**491**	618	412
	₱4,544	₱3,731	₱2,626

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

Accrued expenses are accrual of unpaid interest and selling and administrative expenses and are normally settled within 12 months from the reporting date.

14. Long-term Debt

	2007	2006	2005
Unsecured peso loans (net of debt issue cost amounting to ₱69 in 2007 and ₱70 in 2006)	**₱10,231**	₱8,538	₱1,673
Syndicated dollar bank loans (net of debt issue costs amounting to ₱31, ₱58 and ₱80 in 2007, 2006 and 2005, respectively)	**2,549**	4,374	5,258
	12,780	12,912	6,931
Less current portion (net of debt issue costs amounting to ₱48, ₱41 and ₱21 in 2007, 2006 and 2005, respectively)	**1,604**	1,633	1,906
	₱11,176	₱11,279	₱5,025

Movements of debt issue costs are as follows:

	2007	2006	2005
Beginning balance	**₱128**	₱80	₱100
Additions	**17**	74	–
Accretion for the year (see Note 21)	**(45)**	(26)	(20)
Ending balance	**₱100**	₱128	₱80

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

Original Amount	Landbank of the Philippines (Landbank) – ₱2 billion	BPI Capital Corporation and ING Bank N.V. – ₱6.3 billion	Nordeutsche Landesbank Girozentrale (NORD) – US$100 million	Metrobank and Citibank Club Loan (MBTC and CTB) – ₱2 billion	CTB – ₱2 billion
Payment Terms	12 equal quarterly installments starting March 2009 up to November 2011	One time payment in August 2011	Six semi-annual installments starting on the 30th month from June 2004 up to June 2009	13 quarterly installments starting April 2009 up to January 2012	13 quarterly installments starting April 2004 up to April 2007
Interest (2007)	4.60%- 5.84%	8.88%	5.26% to 6.52%	6.73%	5.18%
Security	None	None	None	None	None
Major Covenants	None	Maintenance of certain financial ratios	Maintenance of certain financial ratios	Maintenance of certain financial ratios	Maintenance of certain financial ratios

As of December 31, 2007, the Company is in compliance with its loan covenants. Debt maturities (gross of ₱100 debt issue costs) for the next five years are as follows:

Year	Amount
2008	₱1,651
2009	2,211
2010	1,282
2011	7,582
2012	154
	₱12,880

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15. Other Noncurrent Liabilities

	2007	2006	2005
Asset retirement obligation (ARO)	**₱461**	₱660	₱298
Cylinder deposits	**243**	206	244
Cash bonds (see Note 31)	**173**	141	119
Others	**37**	42	36
	₱914	₱1,049	₱697

Movements of ARO are as follows:

	2007	2006	2005
Beginning balance	**₱660**	₱298	₱256
Additions	**1**	10	9
Effect of change in discount rate	**(236)**	324	–
Accretion for the year (see Note 21)	**36**	37	33
Settlement	**-**	(9)	–
Ending balance	**₱461**	₱660	₱298

The asset retirement obligation covers the Company's leased service stations and depots. The Company also has ARO arising from its refinery. Such obligation is not expected to be settled for the foreseeable future and therefore a reasonable estimate of fair value cannot be determined.

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	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 2007, 2006 and 2005, the Company declared a cash dividend of ₱0.10 per share amounting to ₱938 to all stockholders of record as of May 28, 2007, June 2, 2006 and May 12, 2005, respectively.

ii. Appropriation for Capital Projects

Additional appropriation for future capital projects amounted to ₱4,151, ₱5,369 and ₱4,746 in 2007, 2006 and 2005, respectively.

17. Cost of Goods Sold

	2007	2006	2005
Inventories (see Notes 8, 23 and 26)	**₱191,613**	₱194,263	₱173,768
Depreciation and amortization (see Note 20)	**1,538**	1,536	1,459

(forward)

	2007	2006	2005
Employee costs (see Note 19)	**463**	406	411
Others - net (see Notes 8 and 26)	**1,673**	1,309	1,572
	₱195,287	₱197,514	₱177,210

Inventories include distribution costs amounting to ₱3,536, ₱3,290 and ₱3,518 in 2007, 2006 and 2005, respectively.

18. Selling and Administrative Expenses

	2007	2006	2005
Employee costs (see Note 19)	**₱1,481**	₱1,199	₱1,023
Purchased services and utilities	**994**	817	748
Depreciation and amortization (see Note 20)	**978**	946	876
Maintenance and repairs	**₱530**	473	567
Advertising	**495**	222	398
Rent (see Notes 23 and 24)	**395**	381	306
Materials and office supplies	**188**	164	281
Taxes and licenses	**120**	104	102
Impairment loss on trade and other receivables/receivables written-off (see Note 7)	**50**	–	106
Expenses related to oil spill incident in Guimaras (see Note 34f)	**15**	122	–
Others (see Note 11)	**79**	54	120
	₱5,325	₱4,482	₱4,527

Selling and administrative expenses include research and development expenses amounting to ₱11, ₱16 and ₱14 in 2007, 2006 and 2005, respectively.

19. Employee Costs

Employee costs consist of:

	2007	2006	2005
Salaries, wages and other employee costs (see Note 23)	**₱1,847**	₱1,558	₱1,380
Pension costs – defined benefit plan (see Note 25)	**51**	4	2
Pension costs – defined contribution plan	**46**	38	40
Other long-term employee benefits – interest subsidy	**-**	5	12
	₱1,944	₱1,605	₱1,434

The above amounts are distributed as follows:

	2007	2006	2005
Cost of goods sold (see Note 17)	**₱463**	₱406	₱411
Selling and administrative expenses (see Note 18)	**1,481**	1,199	1,023
	₱1,944	₱1,605	₱1,434

20. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	2007	2006	2005
Cost of goods sold - Property, plant and equipment (see Notes 9 and 17)	**₱1,538**	₱1,536	₱1,459
Selling and administrative expenses (see Note 18):			
Property, plant and equipment (see Note 9)	**964**	933	865
Investment properties (see Note 10)	**14**	13	11
	978	946	876
	₱2,516	₱2,482	₱2,335

21. Interest Expense, Interest Income and Others

	2007	2006	2005
Interest expense:			
Short-term loans (see Note 12)	**(₱990)**	(₱1,608)	(₱810)
Bank charges	**(436)**	(414)	(365)
Long-term debt (see Note 14)	**(218)**	(594)	(805)
Accretion on debt issue costs (see Note 14)	**(45)**	(26)	(20)
Accretion on ARO (see Note 15)	**(36)**	(37)	(33)
Product borrowings	**(17)**	(31)	(57)
Others	**(72)**	26	(1)
	(₱1,814)	(₱2,684)	(₱2,091)
Interest income:			
Money market placements	**₱205**	₱192	₱199
Trade receivables	**69**	92	42
AFS	**46**	58	50
Cash in banks	**8**	12	9
Product loaning	5	9	13
Others	**11**	8	4
	₱344	₱371	₱317
Other income (charges):			
Foreign exchange gain - net	**₱2,283**	₱388	₱306
Commodity hedging	**(806)**	(13)	–
Derivatives net of fair value gain (see Note 31)	**(603)**	(279)	(260)
Rent (see Notes 10 and 24)	**325**	345	280
Reversal of allowance for impairment loss on receivables (see Note 7)	**-**	154	–
Changes in fair value of financial assets at FVPL (see Notes 5 and 23)	**49**	63	14
Insurance claims	**16**	29	–
Gain on settlement of ARO	**-**	13	–
Miscellaneous	**(352)**	(213)	(176)
	₱912	₱487	₱164

Share in net income (loss) of PDSI amounting to (₱0.42), ₱0.35 and ₱0.48 in 2007, 2006 and 2005, respectively, is included in the Miscellaneous account of the "Other income (charges)" account.

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22. Income Taxes

The major components of tax expense as reported in the consolidated statement of income are as follows:

	2007	2006	2005
Current income tax	₱3,165	₱1,723	₱2,057
Deferred income tax:			
Relating to origination and reversal of temporary differences	(₱170)	₱108	₱102
Change in tax rate	(40)	55	(68)
	(210)	163	34
Income tax expense	₱2,955	₱1,886	₱2,091

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:

	2007	2006	2005
Income tax computed at statutory income tax rates of 35% in 2007 and 2006 and 32.5% in 2005	₱3,273	₱2,766	₱2,646
Additions (reductions) resulting from:			
Income subject to income tax holiday (see Note 32)	(163)	(736)	(440)
Changes in fair value of financial assets at FVPL (see Note 21)	(17)	(22)	(5)
Interest income subjected to lower final tax and others	(138)	(122)	(110)
	₱2,955	₱1,886	₱2,091

Income tax expense includes final withholding tax on interest income. On October 18, 2005, the Supreme Court (SC) has rendered its final decision declaring the validity of Republic Act No. 9337 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.

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

	Statements of Financial Position			Statements of Income			Statements of Comprehensive Income		
	2007	2006	2005	2007	2006	2005	**2007**	2006	2005
Deferred tax assets:									
Rental	**₱164**	₱163	₱205	**₱1**	(₱42)	₱128	**₱-**	₱-	₱-
Inventory differential	**414**	124	217	**290**	(93)	22	**-**	-	-
ARO	**97**	81	90	**16**	(9)	13	**-**	-	-
Various allowances,accruals and others	**634**	456	565	**178**	(109)	36	**-**	-	-
	1,309	824	1,077	**485**	(253)	199	**-**	-	-
Deferred tax liabilities:									
Excess of double-declining over straight-line method of depreciation and amortization	**1,195**	1,270	1,267	**(75)**	3	169	**-**	-	-
Capitalized taxes and duties on inventories deducted in advance	**334**	388	411	**(54)**	(23)	(20)	**-**	-	-
Unrealized foreign exchange gain - net	**320**	112	97	**208**	15	97	**-**	-	-
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**571**	358	419	**211**	(59)	(28)	**-**	-	-
Net pension plan asset	**153**	130	398	**(15)**	(26)	15	**38**	(242)	133
Unrealized fair value gains on AFS investments	**4**	9	1	**-**	-	-	**(5)**	8	4
	2,577	2,267	2,593	**275**	(90)	233	**33**	(234)	137
Deferred tax (income) expense				**₱210**	(₱163)	(₱34)	**₱33**	(₱234)	₱137
Net deferred tax liabilities	**(₱1,268)**	(₱1,443)	(₱1,516)						

Net deferred tax assets of the subsidiaries namely NVRC and Petrogen, without right of offset and presented under "Other Noncurrent Asset" account, amounted to ₱0.6, ₱1 and ₱3 as of December 31, 2007, 2006 and 2005, respectively.

The Company is subject to the minimum corporate income tax (MCIT) which is computed at 2% of gross income, as defined under the tax regulations. No MCIT was reported in 2007, 2006 and 2005 as the RCIT was higher than MCIT in these years.

23. Related Party Transactions

The significant transactions with related parties are as follows:

			2007	
Name of Company	Relationship	Nature of Transaction	**Transaction Amount**	**Balance at End of Year**
Saudi Arabian Oil Company (Saudi Aramco)	Ultimate parent of AOC (Stockholder)	Crude oil purchases	**₱138,027**	**(₱7,200)**
Philippine National Oil Company (PNOC)	Stockholder	Leases	126	(1)

			2006	
Name of Company	Relationship	Nature of Transaction	Transaction Amount	Balance at End of Year
Saudi Aramco	Ultimate parent of AOC (Stockholder)	Crude oil purchases	₱145,099	(₱36)
PNOC	Stockholder	Leases	147	(33)

			2005	
Name of Company	Relationship	Nature of Transaction	Transaction Amount	Balance at End of Year
Saudi Aramco	Ultimate parent of AOC (Stockholder)	Crude oil purchases	₱122,826	(₱5,728)
PNOC	Stockholder	Leases	145	–

Petron and Saudi Aramco have a term contract to purchase and supply, respectively, 90% of Petron's monthly crude oil requirements over a 20-year period at Saudi Aramco's standard Far East selling prices. Outstanding liabilities of Petron for such purchases are shown as part of "Liabilities for Crude Oil and Petroleum Product Importation" account in the consolidated statement of financial position.

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

Total compensation and benefits of key management personnel of the Company, amounting to ₱297, ₱326 and ₱297 in 2007, 2006 and 2005, respectively, consist of:

	2007	2006	2005
Salaries and other short-term employee benefits (see Note 19)	**₱251**	₱277	₱248
Pension costs – defined contribution plan paid (see Note 19)	**7**	7	6
Post-employment benefits - defined benefit plan (see Note 19)	**39**	42	42
Other long-term employee benefits – interest subsidy (see Note 19)	**-**	–	1
	₱297	₱326	₱297

24. Operating Lease Commitments

Company as Lessee

The Company entered into commercial leases on certain parcels of land. 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 as of December 31 follows:

	2007	2006	2005
Within one year	**₱450**	₱384	₱377
After one year but not more than five years	**2,095**	1,728	1,518
After five years	**2,241**	1,558	2,620
	₱4,786	₱3,670	₱4,515

Company as Lessor

The Company has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces and parcels of land. 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.

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

	2007	2006	2005
Within one year	**₱256**	₱177	₱168
After one year but not more than five years	**318**	202	175
After five years	**114**	123	141
	₱688	₱502	₱484

25. Pension Plan

The succeeding tables summarize the components of net pension costs recognized in the consolidated statements of income and the funded status and amounts of pension plan recognized in the consolidated statements of comprehensive income.

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

	2007	2006	2005
Current service cost	**₱198**	₱122	₱101
Interest cost on benefit obligation	**274**	256	239
Expected return on plan assets	**(421)**	(374)	(338)
Net pension costs	**₱51**	₱4	₱2
Actual return on plan assets	**₱330**	₱687	₱437

Actuarial Gain (Loss) Recognized Directly in Equity

	2007	2006	2005
Actuarial gain (loss) for the year due to present value of obligation	**₱218**	(₱1,282)	(₱363)
Actuarial gain(loss) for the year	**(92)**	313	99
Actuarial gain due to limit on recognized plan assets	**-**	270	620
Net actuarial gain (loss) recognized	**₱126**	(₱699)	₱356

Net Pension Asset

	2007	2006	2005
Fair value of plan assets	**₱4,360**	₱4,217	₱3,737
Defined benefit obligation	**3,851**	3,783	2,330
Pension asset	**509**	434	1,407
Less unrecognized assets due to limit	**-**	–	270
Net pension asset recognized (see Note 11)	**₱509**	₱434	₱1,137

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

	2007	2006	2005
Opening defined benefit obligation	**₱3,783**	₱2,330	₱1,709
Interest cost	**274**	256	239
Current service cost	**198**	122	101
Benefits paid	**(186)**	(207)	(82)
Actuarial losses (gain) on obligation	**(218)**	1,282	363
Closing defined benefit obligation	**₱3,851**	₱3,783	₱2,330

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

	2007	2006	2005
Opening fair value of plan assets	**₱4,217**	₱3,737	₱3,382
Expected return	**421**	374	338
Benefits paid	**(186)**	(207)	(82)
Actuarial gains (loss) on plan assets	**(92)**	313	99
Closing fair value of plan assets	**₱4,360**	₱4,217	₱3,737

The Company does not expect to contribute to its defined benefit pension plan until 2010.

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

	2007	2006	2005
Cash	**5%**	1%	5%
Government securities	**47%**	57%	71%
Stocks	**34%**	31%	15%
Real estate	**6%**	7%	8%
Others	**8%**	4%	1%
	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, 2007, 2006 and 2005, the principal assumptions used in determining obligations for the Company's defined benefit pension plan are shown below.

	2007	2006	2005
Discount rate	**8%**	11%	14%
Expected rate of return on plan assets	**9%**	10%	10%
Future salary increases	**8%**	9%	9%

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

	2007	2006	2005	2004	2003
Defined benefit obligation	**₱3,851**	₱3,783	₱2,330	₱1,709	₱1,821
Fair value of plan assets	**4,360**	4,217	3,737	3,382	3,047
Surplus	**₱50**9	₱434	₱1,407	₱1,673	₱1,226

Experience adjustments on present value of obligation amounted to ₱368, ₱151, and (₱99) in 2007, 2006 and 2005, respectively.

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, 2008. The agreement also includes the license to use certain Pennzoil trademarks in exchange for the payment of royalty fee based on net sales value.

Royalty expense amounting to ₱0.8, ₱0.9 and ₱1.07 in 2007, 2006 and 2005, respectively, are included as part of "Others" under the "Cost of goods sold" 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 Plants Producers (IPP) plants.

Sales from the fuel supply contract transactions amounted to ₱12,583, ₱10,727 and ₱10,211 in 2007, 2006 and 2005, 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 2008 that was held on December 19, 2007, Petron won a total of 100,457 kilo-liters (KL) of diesel fuel and 502,335 KL of bunker fuel worth ₱3,484 and ₱12,570, respectively.

27. Earnings Per Share

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

	2007	2006	2005
Net income (after tax) attributable to equity holders of the parent	**₱6,377**	₱6,011	₱6,044
Weighted average number of shares (see Note 16)	**9,375,104,497**	9,375,104,497	9,375,104,497
Basic and diluted earnings per share	**₱0.68**	₱0.64	₱0.64

The Company has no dilutive potential common shares outstanding as of December 31, 2007, 2006 and 2005.

28. Supplemental Disclosure of Cash Flow Information

Changes in operating assets and liabilities:

	2007	2006	2005
Decrease (increase) in assets:			
Trade receivables	**(₱1,350)**	₱735	(₱2,084)
Inventories	**(3,943)**	822	(4,769)
Other current assets	**(3,695)**	(5,842)	(1,796)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum product importation	**5,530**	(289)	1,814
Accounts payable and accrued expenses	**744**	(892)	158
	(2,714)	(5,466)	(6,677)
Addition (reversal) of allowance for impairment of receivables, inventory obsolescence and others	**77**	(169)	351
	(₱2,637)	(₱5,635)	(₱6,326)

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 costs 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 forecast and monitor 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 on the face of the statement of financial position. The Company's capital for the covered reporting periods is summarized in the table below.

	2007	2006	2005
Total assets	**₱104,474**	₱87,516	₱68,886
Total liabilities	**66,686**	55,263	41,271
Total equity	**37,788**	32,253	27,615
Debt to equity ratio	**1.8:1**	1.7:1	1.5:1

This ratio is compliant with the existing covenant for bank loans.

30. Financial Risk Management Objectives and Policies

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

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

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

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

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

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

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

b. The Financial Analysis Planning and Risk Management Department, which is mandated with the overall coordination and development of the enterprise-wide risk management process.

c. A cross-functional Commodity Risk Management Committee, which oversees crude oil and petroleum product hedging transactions.

d. The Financial Risk Management Unit of Treasurers' 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 Health, Safety and Environment Department, which oversees compliance with the domestic and international standards set for risks related to health, safety, and environment.

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

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

a. The Audit Committee, which ensures the integrity of internal control activities throughout the Company. It develops, oversees, checks and pre-approves financial management functions and systems in the areas of credit, market, liquidity, operational, legal and other risks of the Company, and crisis management. The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction and effort, scope and coordination of audit and any related activities.

b. The Compliance Officer, who is a senior officer of the Company that reports to the BOD through the Audit Committee. He monitors compliance with the provisions and requirements of the Corporate Governance Manual, determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Company before the Securities and Exchange Commission 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 reviewed regularly by management. The following is the summation of the Company's foreign currency-denominated financial assets and liabilities as of years ended December 31, 2007 and December 31, 2006:

	2007	2006
	In USD ($)	In USD ($)
Financial assets	**179**	201
Financial liabilities	**(344)**	(245)
Net foreign exposure	**(165)**	(44)

The exchange rates used to restate the US dollar denominated financial assets and liabilities stated above are ₱41.28 and ₱49.03 as of December 31, 2007 and 2006, respectively.

The succeeding table shows the effect of the percentage changes in the Philippine peso to US dollar exchange rate on the Company's net income. These percentages have been determined based on the average 90-day market volatility in exchange rates in the previous 12 months from the years ended December 31, 2007 and 2006, estimated at 95% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held at each statement of financial position date.

Had the Philippine peso strengthened/weakened against the US dollar in end 2007 by 12.52% and in end 2006 by 8.16%, then these would have the following impact:

	2007	2006
Increase/decrease	**12.52%**	8.16%
Increase/decrease in net income	**₱554**	₱114

Interest Rate Risk
The Company's exposure to interest rate risk is mainly related to its cash and cash equivalent and long-term 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 long-term debts.

Future hedging decisions for floating deposit/interest rates will continue to be guided by an assessment of the overall deposit rate risk and interest rate risk profile of the parent company's statement of financial position and the net effect on this of possible deposit/interest rate movements.

The followingsucceeding table illustrates the sensitivity of the net income for the year given a reasonably possible increase/decrease in deposit rates by 36.44% in 2007 and 17.21% in 2006, and interest rates by 94.60% for Philippine peso long term loans and 13.55% for US dollar long term loans in 2007 and by 74.29% for Philippine peso long term loans and 9.47% for US dollar long term loans in 2006, all of which at 95% level of confidence, with effect from the beginning of the years. These changes are considered to be reasonably possible given the observation of prevailing market conditions at those periods. The calculations are based on the Company's financial instruments held at each statement of financial position date. All other variables are held constant.

Effect of changes in deposit rates on cash and cash equivalent:

	2007	2006
Increase/decrease	**36.44%**	17.21%
Increase/decrease in net income	**₱75**	₱215

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

	2007		2006	
	PHP	**USD**	PHP	USD
Increase/decrease	**94.60%**	**13.55%**	74.29%	9.47%
Increase/decrease in net income	**₱87**	**₱20**	₱101	₱27

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

	Interest Rates	Within 1 Year	1-2 years	2-3 Years	3-4 years	4-5 Years	Total
2007 Floating Rate:							
Long-term loan (Landbank)	**4.60%**	**-**	**₱667**	**₱667**	**₱666**	**-**	**₱2,000**
Long-term loan (NORD in USD)	**5.26%**	**$40**	**$22**	**-**	**-**	**-**	**$62**
2006 Floating Rate:							
Long-term loan (Landbank)	6.10%	–	–	₱667	₱667	₱666	₱2,000
Long-term loan (CTB)	7.40%	₱308	–	–	–	–	₱308
Long-term loan (NORD in USD)	6.20%	$28	$40	$22	–	–	$90
2005 Floating Rate:							
Long-term loan(Landbank)	7.20%	₱750	–	–	–	–	₱750
Long-term loan (CTB)	8.00%	₱615	₱308	–	–	–	₱923
Long-term loan(NORD in USD)	5.80%	$10	$28	–	$62	–	$100

Interest on financial instruments classified as floating rate was reprised quarterly for the peso loans and quarterly or semi-annually for the U.S. dollar-denominated loans. Other financial liabilities of the Company that were not included in the above tables were noninterest-bearing liabilities and fixed rate loans and, therefore, not subject to interest rate risk.

The Company has interest-bearing assets of ₱7,502 as of December 31, 2007, ₱10,413 as of December 31, 2006 and ₱2,176 as of December 31, 2005, of which ₱7,034, ₱9,884 and ₱1,849, respectively, have maturities within 1 year (see Notes 4 and 6). Financial assets at FVPL are noninterest-bearing investments and are, therefore, not subject to interest rate volatility (see Note 5).

Credit Risk
In effectively managing credit risk, Petron regulates and extends credit only to qualified and credit-worthy customers consistent with established Company credit polices, guidelines and credit verification procedures. Request for credit lines from trade customers undergo stages of review between the Marketing and Finance Divisions, while 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 carrying amount of the financial assets as shown on the face of the statement of financial position, as summarized below.

	2007	2006	2005
Current financial assets:			
Cash and cash equivalents	**₱9,732**	₱11,735	₱3,940
Receivables	**17,869**	15,629	11,863
Derivative assets			
(included as part of Other current assets)	**100**	58	60
Total current financial assets	**27,701**	27,422	15,863
Noncurrent financial assets AFS investments	**468**	529	327
Total financial assets	**₱28,169**	₱27,951	₱16,190

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

Collaterals. To the extent practicable, Petron also requires collateral as security for a credit facility to mitigate risk. Among the collaterals held are real estate mortgages, bank guarantees, letters of credits, and cash bonds. The Company holds these as securities and 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 with any counterparty.

Credit Quality. In monitoring and controlling the quality of credit extended to counterparty, the Company adopts a credit rating system based on a comprehensive financial and non-financial evaluation 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 present business dealings with the Company.

Impairment Assessment. The Company first assesses whether objective evidence of impairment exists individually for receivable balances that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed account, whether significant or not, that account shall be included in a group with similar credit characteristics and that group is collectively assessed for impairment. Such estimates are based on assumptions about a number of factors such as the historical loss experience/write offs and customer's credit rating. Actual result may differ subsequently, resulting in future changes to the allowance.

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 financing sources.

The Company's financial liabilities as of December 31, 2007 and 2006 have contractual maturities which are presented below.

	2007				
	Within 3 Months	After 3 months but not more than 6 months	After 6 months but not more than 12 months	After 1 year but not more than 5 years	Total
Current financial liabilities:					
Short-term loans	**₱33,434**	**₱350**	**₱-**	**₱-**	**₱33,784**
Liabilities for crude oil and petroleum product importation	**12,873**	**-**	**-**	**-**	**12,873**
Accounts payable and accrued expenses	**3,613**	**-**	**-**	**-**	**3,613**
Total current financial liabilities	**49,920**	**350**	**-**	**-**	**50,270**
Noncurrent financial liabilities:					
Cash bonds (included under "Other noncurrent liabilities" account)	**173**	**-**	**-**	**-**	**173**
Long-term debt (including current portion)	**-**	**722**	**929**	**11,229**	**12,880**
Total noncurrent financial liabilities	**173**	**722**	**929**	**11,229**	**13,053**
Total financial liabilities	**₱50,093**	**₱1,072**	**₱929**	**₱11,229**	**₱63,323**

	2006				
	Within 3 Months	After 3 months but not more than 6 months	After 6 months but not more than 12 months	After 1 year but not more than 5 years	Total
Current financial liabilities:					
Short-term loans	**₱28,135**	**₱-**	**₱-**	**₱-**	**₱28,135**
Liabilities for crude oil and petroleum product importation	**7,541**	**-**	**-**	**-**	**7,541**
Accounts payable and accrued expenses	**2,752**	**-**	**-**	**-**	**2,752**
Total current financial liabilities	**38,428**	**-**	**-**	**-**	**38,428**

(forward)

	2006				
	Within 3 Months	After 3 months but not more than 6 months	After 6 months but not more than 12 months	After 1 year but not more than 5 years	Total
Noncurrent financial liabilities:					
Cash bonds (included under "Other noncurrent liabilities" account)	141	–	–	–	141
Long-term debt (including current portion)	154	651	870	11,365	13,040
Total noncurrent financial liabilities	295	651	870	11,365	13,181
Total financial liabilities	₱38,723	₱651	₱870	₱11,365	₱51,609

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the statement of financial position dates.

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 to start on March 2008) developed by the Commodity Risk Management Committee is already in place. Decisions are guided by the conditions set and approved by the Company management.

Other Market Price Risk

The Company's market price risk arises from its investments carried at fair value (financial assets classified as financial assets at fair value through profit or loss and available-for-sale financial assets). It 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.

- *Margin Protection.* In 1999, the Company was given authority by the BOD 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), through swaps. The cost base of the Parent 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 Parent 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 Parent 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 Parent Company's margin on its products.

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.

- *Inventory Loss Protection.* In early September 2007, the Board approved an expanded authority to hedge for inventory loss protection. This authority was for a trial period of six months from September 2007 to February 2008. Aside from swaps, buying of put options was allowed. A fund for option premiums was set at a maximum amount of US$6. In the February 2008 BOD meeting, this authority was extended for another six months, for the period March to September 2008, with enhancements. The additional instruments allowed include collars and 3-way options. The fund for option premiums was reduced to US$3. Dubai was used as a proxy hedge for the products since prices of crude and products generally move in the same direction and that not all products can be hedged.

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.

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- *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.

  There were no outstanding currency forward contracts as of December 31, 2007. On the other hand, as of December 31, 2006 and 2005, the Company had outstanding currency forward contracts with an aggregate notional amount of US$109 and US$45, respectively and weighted average contracted forward rate of ₱49.704 to US$1.00 and ₱53.206 to US$1.00, respectively. The net fair value loss on these currency forward contracts as of December 31, 2006 and 2005 amounted to ₱64 and ₱5, respectively.

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. The net fair value gain on these transactions as of December 31, 2007, 2006 and 2005 amounted to ₱98, ₱58 and ₱60, respectively.

Fair Value Changes on Derivatives
The net movements in fair value changes of all derivative transactions in 2007 and 2006 are as follows:

	Mark-to-market Gain (Loss)
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**
Fair values at January 1, 2006	₱55
Net changes in fair value during the year (see Note 21)	(279)
Fair value of settled instruments	218
Balance at December 31, 2006	(₱6)

Included in the consolidated statement of financial position as follows:

	2007	2006	2005
Derivative assets (included under Other current assets)	**₱100**	₱58	₱60
Derivative liabilities (see Note 13)	**(2)**	(64)	(5)
Net	**₱98**	(₱6)	₱55

The following table sets forth the carrying values and estimated fair values of the Company's financial assets and liabilities:

	2007		2006		2005	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Current financial assets:						
Cash and cash equivalents	**₱9,732**	**₱9,732**	₱11,735	₱11,735	₱3,940	₱3,940
Financial assets at FVPL	**229**	**229**	180	180	116	116
AFS investments	**164**	**164**	103	103	259	259
Receivables	**17,869**	**17,869**	15,629	15,629	11,863	11,863
Derivative assets	**100**	**100**	58	58	60	60
Total current financial assets	**28,094**	**28,094**	27,705	27,705	16,238	16,238
Noncurrent financial assets						
AFS investments	**468**	**468**	529	529	327	327
Total financial assets	**₱28,562**	**₱28,562**	₱28,234	₱28,234	₱16,565	₱16,565
Current financial liabilities:						
Short-term loans	**₱33,784**	**₱33,784**	₱28,135	₱28,135	₱21,407	₱21,407
Liabilities for crude oil and petroleum product importation	**12,873**	**12,873**	7,541	7,541	7,911	7,911
Accounts payable and accrued expenses	**3,612**	**3,612**	2,752	2,752	1,883	1,883
Total current financial liabilities	**50,269**	**50,269**	38,428	38,428	31,201	31,201
Noncurrent financial liabilities:						
Cash bonds (see Note 15)	**173**	**163**	141	135	119	98
Long-term debt (including current portion)	**12,780**	**11,163**	12,912	12,973	6,931	7,032
Total noncurrent financial liabilities	**12,953**	**11,326**	13,053	13,108	7,050	7,130
Total financial liabilities	**₱63,222**	**₱61,595**	₱51,481	₱51,536	₱38,251	₱38,331

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for financial assets and which 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 by reference to the Insurance Commission (IC) and stock exchange quoted market bid prices at the close of business on the statement of financial position 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.

Cash Bonds. Fair value is estimated as the present value of all future cash flows discounted using the applicable rates for similar types of instruments. Discount rates used in 2007, 2006 and 2005 are 5.76%, 5.69% and 9.97%, respectively.

Long-term Debt - Floating Rate. For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that reprice 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 repricing date. Average discount rates used in 2007, 2006 and 2005 are 6.305%, 5.142% and 4.411%, respectively.

Other Financial Assets and Liabilities. Due to the short-term nature of the transactions, the fair values of cash and cash equivalents, receivables, short-term loans, liabilities for crude oil and petroleum product importation and accounts payable and accrued expenses approximate the carrying amounts as of the statement of financial position date.

32. Registration with the BOI

Mixed Xylene Plant
Petron is registered with the BOI under the New Omnibus Investments Code of 1987 (Executive Order 226) as a pioneer, new producer status of Mixed Xylene. Under the terms of its registration, Petron is subject to certain requirements principally that of producing required metric tons of Mixed Xylene every year.

As a registered enterprise, Petron is entitled to the following benefits on its Mixed Xylene operations:

a. Income Tax Holiday (ITH) for six years from actual start of Mixed Xylene commercial operations (December 1999) until 2005. On May 10, 2005, the BOI approved Petron's application under Certificate of Registration No. DP98-148, for the one year extension of its ITH incentive. The approved bonus year is for the period December 5, 2005 to December 4, 2006;

b. Tax credits for taxes on duties on raw materials and supplies used for its export products and forming parts thereof; and,

c. Simplified custom procedures and others.

Isomerization and Gas Oil Hydrotreater Units
In On January 7, 2004, the BOI approved Petron's application under RA No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act (RA No. 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 seventy percent (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;

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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 (10) year period from date of registration;

f. Importation of consigned equipment for a period of ten (10) 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 firm 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 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 No. 8479 for new investment at its Bataan Refinery for the PetroFCC (see Note 10). 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 (5) 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 No. 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 (5) 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.

Petron has availed of ITH credits amounting to ₱163 in 2007, ₱736 in 2006, and ₱440 in 2005.

33. Segment Information

The Company's operating businesses are organized and managed according to the nature of the products marketed, with each segment representing a strategic business unit that offers different products and serves different markets.

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 products to other Asian countries such as Cambodia, South Korea, China, and Australia.

The following tables present revenue and income information and certain asset and liability information regarding the business segments for the years ended December 31, 2007, 2006 and 2005. Segment assets and liabilities exclude deferred tax assets and liabilities.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Year Ended December 31, 2007						
Revenue:						
External sales	**₱207,621**	**₱-**	**₱-**	**₱2,899**	**₱-**	**₱210,520**
Inter-segment sales	**2,201200**	**158**	**182**	**-**	**(2,5410)**	**-**
Segment results	**9,227**	**134**	**161**	**86**	**300**	**9,908**
Net income	**6,113**	**177**	**94**	**82**	**(70)**	**6,396**
Assets and liabilities:						
Segment assets	**102,241**	**1,512**	**2,619**	**1,073**	**(2,970)**	**104,475**
Segment liabilities	**64,962**	**262**	**1,942**	**534**	**(2,282)**	**65,418**
Other segment information:						
Property, plant and equipment	**30,912**	**1**	**1**	**597**	**2,617**	**34,128**
Depreciation and amortization	**2,467**	**-**	**-**	**49**	**-**	**2,516**
Year Ended December 31, 2006						
Revenue:						
External sales	209,395	–	–	2,331	–	211,726
Inter-segment sales	1,777	110	170	–	(2,057)	–
Segment results	9,101	85	151	78	315	9,730
Net income	5,944	143	37	75	(181)	6,018
Assets and liabilities:						
Segment assets	85,421	1,541	2,507	850	(2,804)	87,515
Segment liabilities	53,268	353	1,924	394	(2,119)	53,820
Other segment information:						
Property, plant and equipment	22,193	1	1	467	2,491	25,153
Depreciation and amortization	2,436	–	–	41	5	2,482
Year Ended December 31, 2005						
Revenue:						
External sales	190,346	–	–	1,143	–	191,489
Inter-segment sales	882	146	159	–	(1,187)	–
Segment results	9,186	120	145	21	280	9,752
Net income	5,765	166	34	29	57	6,051
Assets and liabilities:						
Segment assets	67,185	1,366	2,347	587	(2,602)	68,883
Segment liabilities	39,519	150	1,800	205	(1,919)	39,755
Other segment information:						
Property, plant and equipment	19,797	1	1	429	2,342	22,570
Depreciation and amortization	2,315	–	–	20	–	2,335

Intersegment sales transactions amounted to ₱2,541540, ₱2,057 and ₱1,187 as of December 31, 2007, 2006 and 2005, respectively, which is less than 2% of the total revenues for the years ended 2007, 2006 and 2005, respectively.

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The following tables present additional information on the petroleum business segment of the Company for the years ended December 31, 2007, 2006 and 2005:

	Reseller	Lube	Gasul	Industrial	Others	Total
Year Ended December 31, 2007						
Revenue	₱87,049	₱1,801	₱11,518	₱71,736	₱37,718717	₱209,822
Property, plant and equipment	4,347	521	269	49	25,726	30,912
Capital expenditures	349	2	74	2	14,758	15,185
Year Ended December 31, 2006						
Revenue	86,155	1,579	8,955	73,602	40,881	211,172
Property, plant and equipment	4,236	573	263	55	17,066	22,193
Capital expenditures	250	–	79	7	4,233	4,569
Year Ended December 31, 2005						
Revenue	82,621	1,538	8,350	68,739	29,980	191,228
Property, plant and equipment	4,450	603	195	52	14,497	19,797
Capital expenditures	327	–	30	–	1,058	1,415

Geographical Segments
The following tables present revenue and expenditure and certain asset information regarding the geographical segments of the Company for the years ended December 31, 2007, 2006 and 2005.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
Year Ended December 31, 2007						
Revenue:						
Local	₱177,949948	₱84	₱182	₱2,899	(₱2,5410)	₱178,573
Export/International	31,873	74	–	–	–	31,947
Year Ended December 31, 2006						
Revenue:						
Local	176,864	63	170	2,331	(2,057)	177,371
Export/International	34,308	47	–	–	–	34,355
Year Ended December 31, 2005						
Revenue:						
Local	167,701	72	159	1,143	(1,187)	167,888
Export/International	23,527	74	–	–	–	23,601

Segment asset 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 asset of the segment located outside the country, Ovincor, is less than 1% of the consolidated assets of all segments as of the years ended 2007, 2006 and 2005.

34. Other Matters

a. Petron has unused letters of credit totaling approximately ₱27 as of end-2007, ₱257 as of end-2006 and ₱30 as of end-2005.

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.

In November 1999, the Department of Finance (DOF) Center ExCom cancelled Tax Debit Memos (TDMs) worth ₱475, the related TCCs and their assignments. The BIR implemented this with a letter of assessment for deficiency excise taxes of ₱284 plus interest and charges for the years 1995 to 1997, as a result of the cancellation. The Company contested these actions on the grounds that the assessment has no factual and legal basis 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 Petron'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. Petron's motion for reconsideration was denied on November 23, 2006. Petron appealed the Division's Decision to the CTA en banc. On October 30, 2007, the CTA en banc dismissed Petron's appeal, with two of four justices dissenting. Petron filed its appeal on November 21, 2007 with the SC where it is still pending. On December 21, 2007, in the substantially identical case of Pilipinas Shell, the SC decided to nullify the assessment of the deficiency excise taxes.

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 the Company's Petition for Review for lack of merit. Petron is ordered to pay the respondent the reduced amount of ₱601 representing Petron's deficiency excise taxes for the taxable years 1995 to 1998. In addition, Petron is ordered to pay the respondent 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron's Motion for Reconsideration was denied on August 14, 2007. Petron appealed to the CTA en banc thru a Petition for Review filed on October 1, 2007, which remains pending for resolution.

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 SC on December 21, 2007 in the substantially identical case in which the Court nullified the assessment of the deficiency excise taxes.

c. RA No. 8749, "Philippine Clean Air Act of 1999"

Petron has been fully complying with the Clean Air Act (CAA) since the law was implemented. It introduced its low-sulfur "Diesel Max" to the market three months ahead of the CAA-mandated schedule. Under the CAA law, oil firms are mandated to lower the sulfur content of ADO to 0.05% by January 1, 2004 nationwide.

Beyond CAA compliance, Petron has substantially invested resources to upgrade its production capabilities to meet CAA specifications. In January 2005, it commissioned its Isomerization Unit that will enable the Company to produce isomerates for blending with gasoline to meet current specifications. The unit is part of the ₱5,000 refinery project that also includes a Gas Oil Hydrotreater that was commissioned in April 2005. With these two units, Petron is the only oil company that can serve the local market's demand for CAA-compliant fuels entirely from local production.

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d. 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, Petron filed this petition to annul city Ordinance No. 8027 and enjoin the City Council of Manila, as well as Mayor Joselito Atienza from implementing the same.

A status quo order is in effect and the case is under mediation proceedings. Recently, the City of Manila approved the Comprehensive Land Use Plan and Zoning Ordinance (CLUPZO) (Ordinance No. 8119) that allows Petron a seven-year grace period. The passage of Ordinance No. 8119 effectively repealed Manila Ordinance No. 8027 and is in fact now being implemented by the City of Manila. On March 7, 2007, the SC 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, Petron, 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 SC 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 SC's decision and the enforcement of Ordinance No. 8027 improper. Further, Petron, Shell, and Chevron noted the ill-effects of the sudden closure of the Pandacan Terminals on the entire country.

On March 22, 2007, the Department of Energy likewise filed a motion for the government to intervene and supported the oil companies' position. On March 23, 2007, Petron received an order from the SC ordering the parties to file their comments and setting the same for oral arguments. This order in effect, stayed any action by the City of Manila. The oral argument was held on April 11, 2007. Petron, together with Shell and Chevron, filed its Memorandum dated May 4, 2007.

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

On February 13, 2008, the SC allowed the oil companies' intervention but denied their motion for reconsideration, declaring Manila City Ordinance No. 8027 valid and applicable to the Oil Terminals. 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.

Notwithstanding that the SC resolution is not yet final; the Company is already in the processes of finalizing the study of its various alternatives. Further, the Company believes that an adverse ruling will not have any material impact to the Company's profitability.

e. Navotas Business Tax Case

In the case of Petron vs. Mayor Tobias Tiangco concerning the imposition of business tax for the sale of diesel at the Navotas Bulk Plant, the TRO issued by the SC is still in effect and will prevent the closure of the Bulk Plant until the case is decided by the SC.

f. Oil Spill Incident in Guimaras

M/T Solar I sank in rough seas in the afternoon of August 11, 2006 en route to Zamboanga, loaded with about two million liters of industrial fuel oil. It now lies about 640 meters beneath the sea, at approximately 13 nautical miles southwest of Guimaras.

Petron 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 oil spill.

Inspection by the Survey Ship Shinsei Maru (Shinsei Maru), using a remote-operated vehicle (ROV), found the vessel upright and in stable condition 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 conducted by the Special Task Force on Guimaras by the Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both found the owners of M/T Solar I, Sunshine Marine Development Corporation (SMDC), liable. The DOJ found no criminal liability on the part of Petron. However, the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Department of Transportation and Communication and is awaiting its resolution.

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

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

The Company is working closely with the provincial government, DSWD, Department of Agriculture, Technical Education and Skills Development Authority and the Philippine Business for Social Progress in developing livelihood programs for the local community. Last November 27, 2006, Petron held a scientific conference in cooperation with the University of the Philippines - Visayas, the National Disaster Coordinating Council, the World Wildlife Fund 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. Among the interventions along this line were the construction of the Petron School in Nueva Valencia and the establishment of Petron Library Hub in Jordan, both of which were inaugurated on June 15, 2007. To complement these educational facilities, the Company has put in place internet connectivity in all the public high schools and Department of Education facilities in Guimaras.

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 Club contracted a sub-sea systems technology provider (Sonsub) to recover the oil from the sunken vessel. The recovery vessel, Allied Shield, arrived at Bacolod Real Estate Development Corporation Pier in Bacolod City last March 10, 2007. After unloading the ISO-certified tanks and hoses, the vessel proceeded to the site ion March 11, 2007. Oil recovery operation was technically completed on April 1, 2007. A total of 9,000 liters of oil was recovered.

Petron has filed a total of ₱217 against the IOPC as of December 31, 2007. A total of ₱118 have been paid to the Company. The recent installment was collected last April 30, 2007. As of December 31, 2007, total outstanding claims from IOPC amounted to ₱99.

Total expenses incurred were ₱15 in 2007 and ₱122 in 2006, net of ₱105 reimbursements (see Note 18).

Notes to Consolidated Financial Statements

(With Comparative Figures For 2006 And 2005)
(Amounts In Million Pesos, Except Par Value, Shares And Per Share Amounts, Exchange Rates, And Commodity Volumes)

g. Bataan Real Property Tax Cases

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

Petron 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. Petron contested the first assessment covering the Isomerization and Gas Oil Hydrotreater (GOHT3) Facilities of Petron which enjoy, among others, a five-year real property tax exemption under the Oil Deregulation Law (RA 8479) per Board of Investments Certificates of Registration. The second assessment is based on alleged non-declaration by Petron of machineries and equipment in its Bataan refinery for real property tax purposes and/or paid the proper taxes thereon since 1994. Petron 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 of Bataan proceeded with the publication of the Public Auction of the assets of Petron, which was set for October 17, 2007.

Petron exerted all efforts to explain to the Treasurer that the scheduled auction sale was illegal considering Petron's appeal to the LBAA and the posting of the surety bond. Considering the Treasurer's refusal to cancel the auction sale, Petron 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 SC.

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

List of Banks and Financial Institutions

ABN AMRO Bank
Allied Banking Corporation
Arab Petroleum Investments
Australia and New Zealand Banking Group, Ltd.
Ayala Life Assurance
Banco de Oro
Bank of Butterfield
Bank of China
Bank of the Philippine Islands
BNP Paribas
BPI Capital Corporation
Calyon Corporate and Investment Bank
Cathay United Bank
China Banking Corporation
Chinatrust Commercial Bank Corporation
Citibank, N. A.
Citicorp International Limited
Deutsche Bank
DZ Bank AG Deutsche Zentral-Genossenschaftsbank
Development Bank of the Philippines
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.
Norddeutsche Landesbank Girozentrale, Singapore
PCI Capital Corporation
Philippine National Bank
Pioneer Life, Inc.
Rizal Commercial Banking Corporation
Robinson's Savings Bank
Samba Financial Group
SB Capital Investment Corporation
Schroeders (Bermuda), Ltd.
Security Bank Corporation
Societe Generale
Standard Chartered Bank
The Bank of Bermuda, Ltd.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Hongkong and Shanghai Banking Corporation, Ltd.
The Saudi Investment Bank
Union Bank of the Philippines
United Coconut Planters Bank

Board of Directors

Seated from left to right:
Nicasio I. Alcantara, 65 years old, has been an Executive Director and the Chairman of Petron Corporation since July 30, 2001. Currently, he is also the Chief Executive Officer. Prior to joining Petron, he was Chairman/President of various corporations of the Alcantara Group of Companies.

Kamal M. Al-Yahya, 51 years old, was appointed last September 01, 2007. Mr. Al-Yahya is also the company President. He has been with Saudi Aramco for 20 years, with work focusing in management and hydrocarbon exploration.

Emilia T. Boncodin, 53 years old, is an Independent Director since April 2006. She is currently a Professor at the National College of Public Administration and Governance of the University of the Philippines and is also connected with the Commission on Audit Professorial Award. She was the Secretary of the Department of Budget and Management from February to June 1998 and in January 2001 to July 2005.

Nabilah M. Al-Tunisi, 48 years old, started her stint as a member of the Board of Directors in July 2007. She has more than 20 years of experience with Saudi Aramco. Currently, she is the Manager of Project Support & Controls Department.

Standing from left to right:
Bernardino R. Abes, 77 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.

Abdullah O. Al-Baiz, 50 years old, has been a Director since February 2007. Mr. Al-Baiz has had 15 years of experience in the management and technical field of the oil industry. He is now the President and Chief Executive Officer of Saudi Aramco Lubricating Oil Refining Company (Luberef) based in Jeddah. Prior to this, he was Saudi Aramco's New Business Evaluation Department Manager.

Abdallah I. Al-Saadan, 45 years old, is the newest member of the Board appointed in February 2008. He has been with Saudi Aramco for over 20 years and has had extensive and diversified experience in the oil and gas industry. Currently, he is the Executive Director of Saudi Aramco's Information Technology Department. Previously, Mr. Saadan was President and CEO of Saudi Aramco's Mobil Refinery Company in Yanbu, K.S.A.

Michael T. Defensor, 38 years old, was appointed to the Board in November 2007. Mr. Defensor was formerly Presidential Chief of Staff prior to his election to Petron. He became the youngest cabinet official at the age of 31, as the Presidential Adviser on Housing. He was also the Secretary of the Department of Environment and Natural Resources from 2004 to 2006. He was a former Congressman and Councilor of Quezon City.

Douhan H. Al-Douhan, 72 years old, has been an Independent Director since July 2001. He has been the Managing Director of Randa Trading & Construction in Saudi Arabia since 2004.

Alberto A. Pedrosa, Filipino, 75 years old, was elected non-executive Director of the company in March 2005. He is currently the Chairman and Publisher of Republika, a newsmagazine focused on the 42,000 barangays in the country. He is also the Chairman of People's Initiative for Reform, Modernization and Action (PIRMA). Mr. Pedrosa was a former Ambassador Extraordinary and Plenipotentiary to Belgium, Luxembourg and the European Union from 1992 to 1995.

Management Committee

This page, standing from left:
Antonio G. Pelayo - Vice President for Finance and Subsidiaries
Nicasio I. Alcantara - Chairman and Chief Executive Officer
Sulaiman M. Ababtain - Vice President for Corporate Planning
Rosario R. Eijansantos - Treasurer

This page, seated from left:
Jose Jesus G. Laurel - Vice President for Legal and External Affairs
Kamal M. Al-Yahya - President

This page, standing from left:
Alfred A. Trio - Vice President for Refinery
Luis A. Maglaya - Corporate Secretary
Ma. Concepcion F. de Claro - Controller

This page, seated from left:
Felimon E. Antiporta - Vice President for Supply and Operations
Jose K. Campos, Jr. - Vice President for Marketing

Terminals and Depots

Luzon

APARRI
J.P. de Carreon Street
Punta Aparri, Cagayan
(078) 888-2456, 888-2071

BATANGAS
Barrio Mainaga, Mabini
Batangas
(043) 487-0418, 487-0377
(043) 487-0419 (Fax)

CALAPAN
Roxas Street, Barangay Ilaya
Calapan City, Oriental Mindoro
(043) 288-1779

LIMAY
Petron Bataan Refinery
Limay, Bataan
(02) 884-9100
(047) 244-3300

NAVOTAS
PFDA Compound
Navotas, Metro Manila
(02) 281-4826, 281-1297

PALAWAN
Parola, Barangay Maunlad
Puerto Princesa City, Palawan
(048) 433-2682, 433-3329

PANDACAN
Jesus Street, Pandacan
Manila
(02) 563-8521 to 40
- **Order & Billing**
  (02) 563-8491 to 95
- **Dispatching**
  (02) 563-3047
  (02) 563-8521 loc. 223

PASACAO
Barangay Camangi
Pasacao, Camarines Sur
(054) 513-9258, 513-9175
(054) 513-9175 (Fax)

PORO
Poro Point
San Fernando, La Union
(072) 242-6032 to 34

ROSARIO
General Trias
Rosario, Cavite
(046) 438-2860, 438-1996

SAN JOSE
1020 A. Mabini Street
San Jose, Occidental Mindoro
(043) 491-1938

Visayas

AMLAN
Tandayag, Amlan
Negros Oriental
(035) 527-0790, 417-0793
417-0795

BACOLOD
Barrio San Patricio, Bacolod City
Negros Occidental
(034) 433-9690, 433-9687 to 89

ILOILO
Lapuz, Iloilo City
(033) 337-6895, 338-1893

ISABEL
Lide, Isabel, Leyte
(053)556-0177, 337-2289

MACTAN
MEPZ, Lapu-lapu City
(032) 340-4620, 340-4629

MANDAUE
Looc, Mandaue City, Cebu
(032) 346-5135, 344-7341 to 51

ORMOC
Barrio Linao, Ormoc City, Leyte
(053) 255-9070, 561-1239

ROXAS
Arnaldo Boulevard, Culasi
Roxas City
(036) 621-1992, 621-0722

TACLOBAN
Anibong, Tacloban City
(053)325-6433, 325-6432
523-1686

TAGBILARAN
Graham Avenue, Tagbilaran
Bohol
(038) 411-3397

Mindanao

BAWING
Purok Cabu, Bawing
General Santos City
(083) 301-1988

BULA
P. Acharon Boulevard
Bula, General Santos City
(083) 553-4923

DAVAO
Km. 9, Barrio Pampanga
Davao City
(082) 234-2185, 233-0399

ILIGAN
Barrio Tuminobo, Iligan City
Lanao del Norte
(063) 492-0653, 351-6704
221-5264

JIMENEZ
Jimenez, Misamis Occidental
(088) 272-3230, 272-3243

NASIPIT
Talisay, Nasipit
Agusan del Norte
(085) 283-3126, 343-2218/19

TAGOLOAN
Tagoloan, Misamis Oriental
(08822) 740-072, 740-263

ZAMBOANGA
Barangay Campo Islam
Lower Calarian, Zamboanga City
(062) 991-1245, 991-1571
991-4352

Airport Installations

DAVAO
Davao Airport
(082) 234-2185/86, 233-0399

ILOILO
Barangay Airport, Mandurriao
Iloilo City
(033) 321-3183

LAOAG
Laoag Airport
c/o NAIA 833-7084

NAIA
JOCASP, CPD, NAIA, Pasay City
(02) 833-7084, 831-5842

LPG Operations

GASUL-PASIG
Barrio Ugong, Pasig, Metro Manila
(TL) 671-9817 to 26

LEGASPI
Lakandula Drive, Barangay Bonot
Legaspi City
(052) 480-8113

GASUL-SAN FERNANDO
San Fernando, Pampanga
(045) 961-3564

CALAMBA WAREHOUSE
Calamba, Laguna
(049) 545-6481

Product List

Fuels

AUTOMOTIVE FUELS
Petron Blaze
Petron XCS
Petron Xtra Unleaded
Regular Unleaded
Diesel Max
Petron Xtend Autogas

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

AVIATION FUELS
Aviation Gasoline
Jet A- l

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 Aluminum
Complex
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
Product 50 R
Printsol 600
Rubbex 130
Stemol
Jute Batching Oil
Aldro Oil

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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Fax No. (632) 886 3064
Website: www.petron.com
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Shareholder Services and Assistance
For questions or comments regarding dividend payments, change of address, account status, lost or damaged stock certificates, please get in touch with:

Stockholder Services Section
Public Affairs Department
39/F Petron MegaPlaza
358 Sen. Gil Puyat Avenue
Makati City 1200 Philippines
Tel. No. (632) 886 3888
Fax No. (632) 886 3064

Or with our stock transfer agent:

Stock Transfer Services, Inc.
8/F Phinma Plaza
39 Plaza Drive, Rockwell Center
Makati City 1200 Philippines
Tel. No. (632) 898 7555
Fax No. (632) 898 7597

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