Annual Report 2008

Moving Forward

PETRON

Fuel Success.

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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 total fuel 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 liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, fuel oil, solvents, asphalts, 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, Petron supplies fuel oil, diesel, and LPG to various industrial customers. The power sector is Petron's largest customer. We also supply jet fuel at key airports to international and domestic carriers.

Through nearly 1,300 service stations, we retail gasoline, diesel, and kerosene to motorists and public transport operators. We also sell our LPG brands "Gasul" and "Fiesta Gas" to households and other consumers through an extensive dealership network.

We operate a lube oil blending plant at the Pandacan Terminal, where we manufacture lubes and greases. These are sold in our service stations and sales centers. We also operate a facility in Subic Bay which produces fuel additives.

We have developed certain non-fuel businesses which include our convenience store "Treats." Petron has partnered with major fast-food chains, coffee shops, 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 (COCO) service stations in strategic locations.

Message To Our Stockholders

MOVING FORWARD

In a year of unusual challenges, a new world of opportunities nevertheless opened up for Petron. 2008 saw Saudi Aramco and the Philippine National Oil Company's divestment of their shares in Petron to SEA Refinery Holdings of the Ashmore Group. This marked the full return of the company to private ownership, 35 years after its predecessor, Esso Philippines, was acquired by the government. By the end of the year, negotiations were also underway for San Miguel Corporation (SMC) to have the option to purchase a majority stake in Petron.

These changes in Petron's ownership provide fresh impetus for the growth of the company. The partnership with SMC, in particular, will bring opportunities for synergies with a company that is not only noted for its ability to leverage people, distribution platforms and manufacturing systems, but is embarking on investments in energy and other vital industries.

Buffeted by turbulence in the business environment, your company had to contend with marked fluctuations in oil prices and slower economic growth that resulted in weakened local oil demand.

After reaching an all-time high of $140.77/barrel in July, the price of Dubai crude plummeted in the following months, ending the year at $36.40. Prices of refined products in the international market also fell at a precipitous rate, resulting in a downward spiral of domestic fuel prices. While the steady decline in selling prices eroded the margins of all industry players, the margin squeeze was more severe for Petron, being a refiner with roughly two months' inventory of crude and finished products. As a result, the company ended the year with a net loss of P3.9 billion.

Yet, the year was not without its share of good news. Despite a decline of 4.1% in the country's demand for oil products, your company managed to increase its total market share to 39.0%, adding 0.4 percentage points to its share in 2007. Our nearest competitor, on the other hand, shed 2 percentage points.

RAMON S. ANG
Chairman and
Chief Executive Officer

ERIC O. RECTO
President

Message To Our Stockholders

Petron led in most of the fuel market segments or trades, including the service station business, industrial/commercial accounts and the LPG trade. Industrial and LPG market shares actually increased by 2.4 and 3.7 percentage points, respectively. In the lube trade, market share grew by 3.6 percentage points.

Petron's marketing network continued to grow as more service stations, Gasul stores and lube outlets were opened. Network expansion was accompanied by growth in card services, with both the Petron Fleet Card and the Petron BPI Mastercard posting increases in cardholder base of more than 20%. The company also introduced a new card, the E-Fuel card which provides more convenience to cash customers.

Meanwhile, the company's non-fuel businesses continued to do well. Convenience stores (Treats), fast-food franchises and locators brought in combined revenue that was 58.7% higher than in 2007.

On the supply and refinery side, one of the year's highlights was the commissioning of the PetroFCC and Propylene Recovery Unit or PRU in the first quarter. The PetroFCC is designed to increase the refinery's yield of white products (e.g., gasoline, diesel) versus low-value black products or fuel oil. The PRU recovers the petrochemical feedstock propylene from LPG streams, supplementing refinery margins. When the BTX (Benzene, Toluene, Xylene) facility is commissioned in the second quarter of 2009, this too will improve margins by increasing the refinery's output of valuable petrochemical feedstocks.

We also saw substantial efficiency improvements in logistical systems. Oil losses in transshipment were further minimized through the use of automation and improved measuring equipment. Domestic demurrage declined by nearly 30% with the implementation of measures designed to cut this cost, particularly in Pandacan, our busiest terminal.

The year's accomplishments were capped by recognition given to the company by external stakeholders. The People Management Association of the Philippines or PMAP named Petron "Employer of the Year" for its strategic human resource programs. The company was also among the Top Ten best governed publicly-listed companies recognized by the Institute of Corporate Directors—the third time we have made that listing.

Petron remains committed to corporate social responsibility (CSR) programs that support the country's social and environmental goals. The *Tulong Aral* program, designed to help send underprivileged children to school, saw its first batch of more than a thousand scholars graduate from elementary school. Nearly 20% of these students achieved outstanding academic performance, encouraging the Petron Foundation to extend their scholarship to high school.

With regard to the environment, Petron's CSR focused on helping to preserve the Tubbataha reefs and the Sulu Seas which are considered critical for maintaining the biodiversity and health of marine ecosystems in the South Asian region. Marine preservation is an important advocacy for Petron as our products depend heavily on sea transport.

Details of our initiatives in the areas of CSR and Health, Safety and Environment can be found in our Sustainability Report. This report complies with the Global Reporting Initiative (GRI) framework and measures our economic, environmental and social performance.

Petron's accomplishments in 2008 demonstrate that it has virtually limitless reserves of potential that can be tapped through innovation, good management and the commitment of its workforce. The losses we incurred were due to extraordinary circumstances that affected not only the domestic oil refining industry but other refiners in Asia as well.

Moving forward, your company will focus more strongly on customer service to strengthen its leadership in the market. We are aiming to take the Petron brand to new categories, identify new product or service opportunities, and develop innovations to differentiate the brand from its competitors. We are confident that Petron will surmount the challenges of the current business environment and emerge stronger than ever.

RAMON S. ANG
Chairman and
Chief Executive Officer

ERIC O. RECTO
President

Operating Highlights

MOVING

FORWARD

Despite the extraordinarily challenging business environment in 2008, we continued to roll out programs and projects with the aim of creating more value for our shareholders. With these programs in place, we are ready to move forward and sustain our growth momentum.

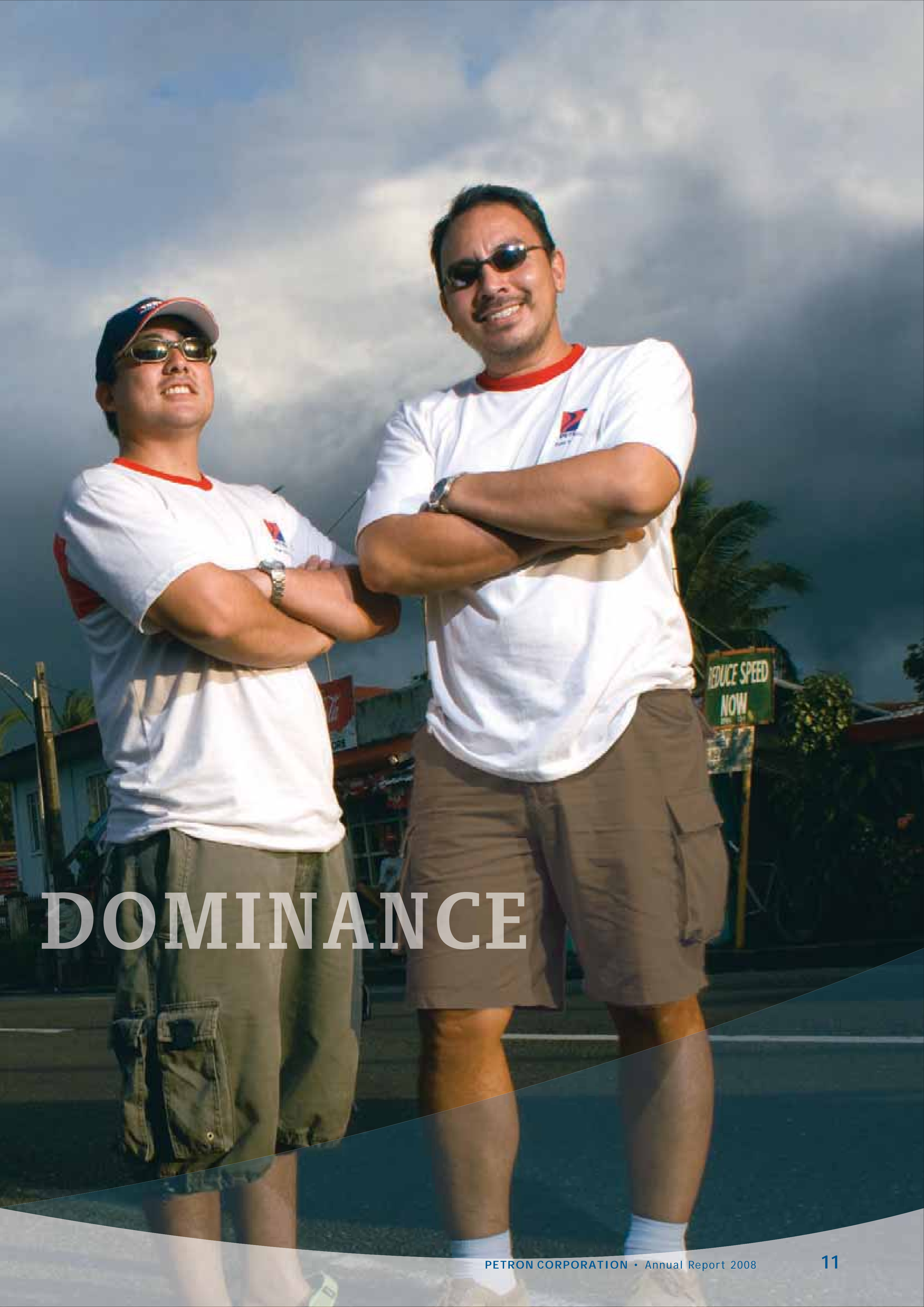
Operating Highlights

We continued to focus on providing first-rate products and services to our customers, leveraging our extensive retail and distribution networks. We likewise introduced new and innovative products to take customer service to a new level and enhance our leadership in a highly competitive market. These will further help us differentiate the Petron brand from our competitors.

To ensure our market dominance, we continued to expand our service station network to bring Petron's products and services closer to the Filipino consumer. We constructed more stations in strategic locations, bringing our total retail network count to 1,288 as of the end of 2008. Our retail network, which remains the largest in the country, allowed us to remain No. 1 in the highly competitive Reseller trade where we cornered 34.1% of the market.

Our leadership was further enhanced by the introduction of innovative products and marketing campaigns.

In January 2008, we staged the fourth Petron Xtra Mile Challenge, dubbed the Champions Edition. This edition of our popular fuel economy run featured winners from previous Xtra Mile contests, with the "champion" recording an impressive 1,402.4 kilometers on just one full tank of Xtra Unleaded. This economy run proved once again that our Xtra Unleaded gasoline is a cut above other brands when it comes to efficiency and economy—a high-quality product that delivers extra miles and gives motorists more value for their money.



DOMINANCE

June 2008 saw the launch of our E10 Premium – a specially formulated gasoline that contains 90% Petron premium unleaded gasoline and 10% fuel grade ethanol with an enhanced fuel additive. The early introduction of our E10 Premium gasoline ahead of the government mandate was part of the company's efforts to make environment-friendly fuel alternatives available to the motoring public.

The use of E10 Premium will have a positive impact on the environment since it is biodegradable and significantly reduces exhaust emissions. Motorists will also feel the benefit of this product since its special formulation cleans the engine and enhances combustion. This translates to more fuel economy. Another benefit of using ethanol-blended gasoline is that it will spur development in the countryside and lessen the Philippines' dependence on imported oil.

In the Liquefied Petroleum Gas (LPG) sector, Petron Gasul continued to be the brand of choice of more Filipino families. We posted the most significant gain in the industry as we increased our LPG volumes by 10% despite a contraction in overall consumption. We further strengthened our leadership, posting a 37.7% market share for 2008. This is a 3.7% increase over 2007.

We continued to establish Gasul branch stores all over the country, bringing our total count to around 400. Our Tawag Lang Center (TLC), which allows households to buy directly from our branch stores in Metro Manila, proved to be a success as we recorded more and more deliveries.

2008 also saw the further integration of the Chevron LPG retail business into our own network. It can be recalled that in early 2007, we welcomed around 70 Chevron dealers and refillers into the Gasul family. To smoothly accommodate the additional business, we launched a second LPG brand called Fiesta Gas. The Fiesta Gas brand is expected to broaden Petron's LPG customer base and guarantee future leadership in this market segment.

We also put up more automotive LPG facilities at our service stations to maintain our strong participation in this fast-growing market. Xtend remains the top autoLPG brand - capturing an estimated 40% of the total market. LPG is a choice alternative fuel because it produces lower emissions and is cheaper compared to gasoline.

In Lube Trade, Petron increased its share by 3.6% accounting for 37.7% of the total market. We achieved this through a number of initiatives.

More Petron Car Care Centers (PCCCs) were constructed in high-traffic areas. PCCC is our own branded vehicle center that provides affordable, convenient, and efficient vehicle upkeep and repair services at par or even better than *casa* service quality. It also exclusively carries Petron-branded lubricants and specialty products.

We supported the 2008 Iron Man Challenge, an endurance race for motorcycle enthusiasts. Over a hundred riders with their high-performance motorcycles went on a 1,200-kilometer run using our XCS with Complete Combustion System gasoline and our Sprint 4T motor oil. XCS is the only gasoline in the Philippine market with an organic combustion enhancer that promotes a cleaner burn and better fuel economy. Sprint 4T, meanwhile, is a four-stroke motor oil that provides outstanding lubrication performance and reliable engine-cleaning action.

We upgraded the variants of our popular gasoline engine lubricant Ultron from API SL to API SM, enabling us to sustain product competitiveness in terms of quality and performance.

In the Industrial trade, we acquired a significant portion of the National Power Corporation's industrial fuel oil and diesel needs. We likewise continued to supply all the fuel and lubricants requirements of the Armed Forces of the Philippines and the Philippine National Police.

We likewise acquired important accounts including United Parcel Services, PAL Express and Fujitsu Computer. We also maintained our leadership in the aviation sector as we acquired Hawaiian Airlines and Saudia Air as our customers. These helped to keep our industrial sales volume constant despite lower or absent demand from companies that downsized or closed altogether and from those that shifted to cheaper alternative fuels.

Overall, we increased our market share in the Industrial-Civil trade by 2.4% to 42.9%. We increased our lead to more than 13 percentage points over our nearest rival.

We also marked another milestone as we commissioned the Petron Fuel Additives Blending plant at the Subic Bay Freeport Zone—the first of its kind in the Asia-Pacific region. The facility is part of our strategy to develop non-traditional revenue streams and expand our overseas market. The plant has the capacity to blend 12,000 MT of fuel additives per year. When used in gasoline, diesel, or fuel oil, fuel additives improve efficiency, boost engine performance, and benefit the environment by reducing harmful emissions.

Petron partnered with Innospec, a leading global fuel additives supplier, in establishing this facility. The plant will serve as a supply hub for Innospec's customers in Asia. Roughly 80% of the facility's production will be exported to the Asia-Pacific region while the rest will be exclusively used by Petron for its own fuels--Blaze, XCS, Xtra Unleaded, E10 Premium and DieselMax.

We will also render technical support services to Innospec in Asia and participate in the marketing of fuel additives in selected markets. We will tap the customer base of Innospec for Petron-branded lubricants. Innospec already serves power plants, refiners and manufacturers throughout the region, many of which are also users of lubricants.

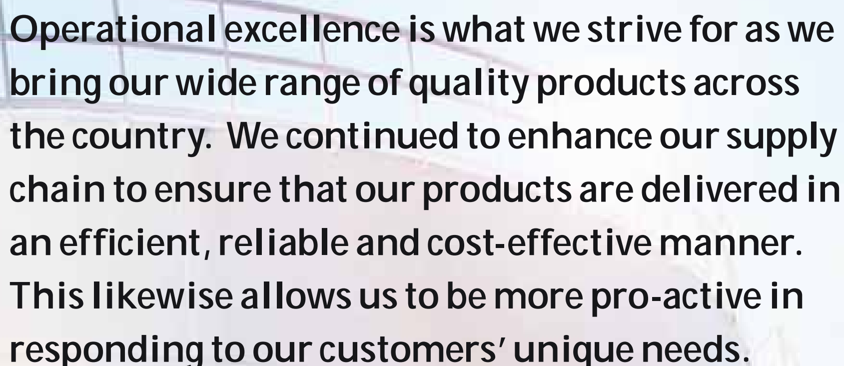
Beyond our core fuel business, we expanded our non-fuels businesses (NFB) to enhance our profitability and give our customers more offerings and services at Petron service stations.

We put up more Treats convenience stores and welcomed new locators and quick serve restaurants. National Bookstore, Bruno's Barbers, Adidas Philippines, etc. are just some of the few new locators at our service stations. As a result, sales revenues from our NFB increased by 58.7% in 2008 versus 2007.

We also saw a 21% increase in holders of the Petron Fleet Card - the first fleet card powered by microchip technology. Likewise, the number of Petron-BPI Mastercard holders grew by 24% as more and more motorists signed up to enjoy the benefits of this card. Fuel rebates, motoring assistance, service discounts and a 24-hour price shield are just among the few privileges in using Petron's card products.

We also launched the Petron e-Fuel card to provide value-added service to consumers. The Petron e-Fuel card is a prepaid card that can be used to purchase Petron fuel products, lubricants, services and other merchandise in selected service stations nationwide.

Operating Highlights


Operational excellence is what we strive for as we bring our wide range of quality products across the country. We continued to enhance our supply chain to ensure that our products are delivered in an efficient, reliable and cost-effective manner. This likewise allows us to be more pro-active in responding to our customers' unique needs.

Through our Shipping Business Alliance program, we commissioned three coastal double-hull, double-bottom tankers in 2008, namely: MT PNOC Lapu-Lapu, MT Emilio Jacinto and MT Matikas in 2008. These brought to 7 the number of double-hull, double-bottom coastal tankers in our domestic marine hauling fleet. These newer and technologically-advanced tankers are faster, have more carrying capacity and are safer than previous vessels.

In the southern Philippines, we expanded our Bawing depot which is situated about 17 kilometers from General Santos City (GenSan). The expansion of our Bawing depot was done in anticipation of the December 2008 closure of our Bula depot in GenSan as a result of a zoning ordinance passed by the local government. With our expanded capacity at Bawing, we were able to serve GenSan without any supply disruption.

EXCELLENCE

We also commissioned a new Jet A-1 product tank and support facilities at our Limay Terminal in Bataan. This facility will serve the growing Jet A-1 requirements of the Clark Special Economic Zone. The additional storage capacity will also supplement our Joint Oil Companies Aviation Storage Plant (JOCASP) at the Ninoy Aquino International Airport.

We continued to pursue the certification of our terminals and depots to comply with international standards with regard to service quality, environment and security management systems. 26 Petron facilities have been certified with the Quality Management Systems ISO 9001:2000.

In the area of environmental sustainability, 15 of our terminals and depots have been given the Environmental Management Systems ISO 14001:2004. This certification affirms our long-standing commitment to environmental care and our efforts to exceed local and international standards. We are aiming to certify the rest of our facilities by the end of 2010.

A total of 17 locations have also been certified under the International Ship and Port Facility Security (ISPS) standard. This means that our facilities adhere to strict security procedures and measures.

At our Bataan refinery, two major units were completed and successfully commissioned in April 2008. The Petro Fluidized Catalytic Cracking unit (PetroFCC) uses the latest refining technologies to produce more high value products such as LPG, gasoline and diesel from fuel oil. The Propylene Recovery Unit (PRU), meanwhile, is designed to produce 140,000 tons annually of polymer-grade propylene, a valuable raw material used in the manufacture of plastics.

Another milestone in 2008 was the construction of the Benzene, Toluene, and Mixed Xylene unit (BTX) which will further expand the refinery's capability to produce petrochemical feedstock. The BTX, which is scheduled to start operating in the second quarter of 2009, will produce 22,000 tons of benzene and 150,000 tons of toluene yearly. The unit will likewise increase mixed xylene production to 220,000 tons annually.

These process units are the key components of the company's $300-million refinery upgrade and are expected to substantially contribute to the bottom line.

In the area of Health, Safety and Environment (HSE), we conducted training and skills development for nearly 1,000 employees, contractors and other business partners. The training programs were designed to raise awareness and impart vital knowledge in connection with oil spill response, fire-fighting, and basic safety.

In line with the company's implementation of a Safety Management System (SMS), an awareness course on OHSAS 18001 (Occupational Health and Safety Administrative Series 18001) was held and attended by personnel from various divisions. OHSAS 18001 is an international occupational health and safety management system that uses a systematic approach in hazard analysis and accident prevention.

We continued to work on agreed programs under our partnership with the US Trade and Development Agency (USTDA) which is aimed at improving our oil spill response capabilities. USTDA gave us a grant in 2007 to identify gaps in our plans and upgrade our oil spill response equipment. The study has been completed and recommendations have been submitted to Management for implementation.

Our adherence to best practices in our operations has led to several awards. For instance, we were conferred the Department of Labor and Employment (DOLE) Safety Milestone (SMILE) Award for our exemplary performance in this field. A total of nearly 12 million man-hours without lost time accident were attained by twelve Petron facilities.

Operating Highlights

Petron's long-standing success can be largely attributed to its greatest asset — its people. We believe that customer satisfaction is derived from employee satisfaction and productivity. Thus, we pursued several initiatives to strengthen this alignment and ensure that the goals of our workforce support the company's vision. Moving as one, we will now embark on a journey into a brighter and more secure tomorrow.

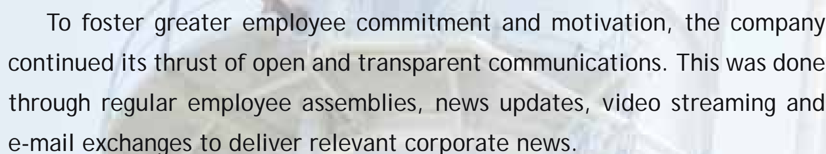
Underscoring the premium we place on our people through strategic and innovative human resource programs, the People Management Association of the Philippines (PMAP) bestowed the prestigious "Employer of the Year" award to Petron Corporation. The award was based on a number of criteria, including Leadership, Strategic Human Resources, Corporate Social Responsibility and Continuous Improvement. The award was made more meaningful by the fact that it coincided with Petron's 75th anniversary.

To further fuel excellence among our employees, we launched the *Gawad PUGAY* (Petron Upholds its Great Achievers of the Year) awards. *Gawad PUGAY* recognizes employees whose excellence in their respective fields has been cited by external organizations. It also honors employees who demonstrated exemplary performance in the organization.

We also held various seminars that promote greater awareness of the company's values among employees as well as courses that help improve their business and management skills. Such professional development programs were complemented by projects that promote our employees' personal well-being in keeping with work-life balance objectives.

STRENGTHENING

ORGANIZATIONAL EFFECTIVENESS



To foster greater employee commitment and motivation, the company continued its thrust of open and transparent communications. This was done through regular employee assemblies, news updates, video streaming and e-mail exchanges to deliver relevant corporate news.

Affirming our commitment to good corporate governance, Petron was again named one of the top ten best governed publicly-listed companies in the Philippines. For the third straight year, the Institute of Corporate Directors (ICD) gave us this prestigious citation. The ICD is an international organization composed of highly reputable corporate directors advocating corporate governance practices that are in line with global standards.

Our Continuous Improvement Program (CIP) at our Bataan refinery continued to produce impressive results. The CIP empowers employees to put forth ideas to improve work processes. Since its inception in 2003, more than 400 improvement projects have been implemented, saving the company an estimated half a billion pesos in cost.

We likewise adapted the latest IT technologies to ensure that our employees have the proper tools in a dynamic business environment. The Petron Hub, which allows for a more streamlined management of information, was upgraded to a more robust platform. The Hub now runs on Microsoft Office SharePoint Server 2007—a more powerful software for information sharing which help boost employee productivity.

Our efforts to manage the security of our information assets are based on best practices under the Information Security Management Systems (ISMS) standard. In August 2008, Petron was given the ISO/IEC 27001:2005 certification—the first oil company in the Asia-Pacific to be given this accreditation.

Highlighting a deeper sense of understanding and trust between management and its workforce, we were able to complete collective bargaining agreements with the company's three labor unions in a timely manner. Negotiations with the Bataan Refiners Union of the Philippines, Petron Employees Labor Union and the Petron Employees Association-National Association of Trade Unions went smoothly, with the latter reaching agreement in record time.

Despite the challenges we faced, we reaffirmed our commitment to caring for the community and environment. We further integrated CSR into our core business. This in turn will help us face challenges in the areas of environmental sustainability and social development.

We had nearly 6,000 *Tulong Aral* ng Petron scholars at the end of school year 2008. This program is a long-term, strategic initiative that helps send underprivileged children to school. In March, we graduated the first batch of scholars totaling 1,137 students. Of this number, 218 were outstanding scholars.

We also marked another milestone in our educational initiative with the creation of the *Tulong Aral* High School Scholarship program. The top 300 of the graduating scholars were given high school scholarships.

To complement this program, we built more Petron Schools mostly in Mindanao areas where these are urgently needed. In partnership with USAID, we built a total of 7 USAID-Petron Schools and repaired 42 classrooms in Mindanao. This brings a total of 28 schools built since the program's inception in 2002. Our strong partnership with USAID has also allowed us to intensify our Teacher Training and Capacity Building program in Mindanao.

SUSTAINING OUR

As part of our environmental stewardship, we sustained our participation in the preservation of the Tubbataha Reefs and the Sulu Sea. Together with World Wide Fund (WWF), we are aiming to improve livelihood, increase food security and promote sustainable resource management throughout the municipality of Cagayancillo—which has jurisdiction over the reefs.

We also celebrated eight years of involvement in the Bataan Integrated Coastal Management program. Together with our partners, we were able to produce the Bataan Coastal Land and Sea Use Zoning Plan—the first of its kind in the Philippines. This can serve as the blueprint for other provinces to effectively manage their coastal and marine resources.

At our Bataan refinery, we continued to look for ways to strengthen our role in the community. We took the initiative to reforest a portion of the 300-hectare Alangan-Lamao Watershed. This is in line with the proposed Petron Forest Park in Limay, Bataan.

To complement all our CSR and HSE programs, we are publishing our first Sustainability Report under the Global Reporting Initiative (GRI) standard. Sustainability reporting is a practice of measuring, disclosing and being accountable to stakeholders in key areas namely economic, environmental and social performance. We are one of the first few companies in the country to produce a B-level Sustainability Report. Through this report, we will be able to take more concrete and meaningful steps towards the goal of sustainable development.

The year 2008 was a difficult one for us. But with the plans and programs that we implemented during the year, we are confident that we will weather this temporary setback and emerge a stronger and more resilient company.

SOCIAL COMMITMENT

Corporate Governance

Petron is strongly committed to implement programs in line with its efforts to adopt the best practices in corporate governance. The company's Corporate Governance Manual, which we adopted in January 2003, remains the foundation of Petron's corporate governance policy.

In compliance with SEC Memo Circular No. 2, Series of 2002, the Manual recognizes and upholds the rights of every stockholder and reflects the key internal control features necessary for good corporate governance. Among others, the Manual covers the duties and responsibilities of the Board of Directors and Board Committees; active participation of Management in the operation of the company; organizational and procedural controls that are supported by an effective management information and risk management reporting systems. This also includes independent audit measures to monitor the Corporation's governance, operations and information systems.

A. STOCKHOLDERS' RIGHTS

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

B. BOARD OF DIRECTORS

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

Upon election, Petron Directors, including the Officers and employees, are made to sign Conflict-of-Interest & Undertaking Statements, disclosing their respective business interests, to ensure that these are not in competition with the business of Petron. To further strengthen their understanding and appreciation, they are also given the Company's Code of Conduct & Ethical Business Policy at the start of their tenure. The schedule of Board meetings for the entire year is fixed and disseminated to the Directors and Officers at the start of the year and Board materials are released and distributed within a reasonable time before every meeting. All Directors, officers and senior managers are required to attend basic corporate governance seminars at SEC-accredited providers immediately upon assuming office. At the end of each year, evaluation forms are sent out to the Directors to evaluate the performance of the Chairman and the President and the Board committees in which they are members. A separate form is provided to the Chairman and the President to assess, in turn, the performance of each member of the Board.

#	DIRECTORS	Executive / non-Executive/ Independent Director	Attended CG Seminar	Board Meeting Dates						Committee Membership			
				Feb 29	Mar 26	May 7	July 31 ASM	July 31 OM	Nov 7	Nomi-nation	Audit	Compen-sation	Exec. Comm
1	Nicasio L. Alcantara [i]	Executive Director	●	●	●	●	●	●	●	●		●	●
2	Kamal M. Al-Yahya *	Executive Director	●	●	●	●				●		●	
3	Eric O. Recto [ii]	Executive Director	●				●	●	●	●	●	●	●
4	Bernardino R. Abes	Non-Executive Director	●	●	●	●	●	●	●			●	
5	Michael T. Defensor [ii]	Non-Executive Director	●		●	●	●	●	●		●		
6	Alberto A. Pedrosa [iv]	Non-Executive Director	●							●			
7	Carmen N. Pedrosa [v]	Non-Executive Director							●	●	●		
8	Abdullah O. Al-Baiz *	Non-Executive Director	●	●	●	●						●	
9	Nabilah M. Al-Tunisi *	Non-Executive Director	●	●	●					●	●		
10	Abdallah I. Al-Saadan *	Non-Executive Director	●	●	●	●						●	
11	Roberto V. Ongpin [vi]	Non-Executive Director	●				●	●	●			●	●
12	Craig Webster [vii]	Non-Executive Director	●				●	●	●	●	●	●	
13	Seumas James S. Dawes [viii]	Non-Executive Director	●										
14	Douhan H. Al-Douhan [ix]	Independent Director	●	●	●	●				●	●	●	
15	Emilia T. Boncodin	Independent Director	●	●	●	●	●	●	●	●	●	●	●
16	Ron W. Haddock [x]	Non-Executive Director									●		
17	Ramon S. Ang **	Executive Director										●	●
18	Eduardo M. Cojuangco, Jr. **	Non-Executive Director											
19	Estelito P. Mendoza **	Non-Executive Director								●	●	●	
20	Angelico T. Salud **	Independent Director								●	●	●	

i Replaced by Director Ramon S. Ang as Chairman/CEO on Jan. 8, 2009. Mr. Alcantara continues to be a Director.
ii Elected on Jul. 31, 2008 as Director and Oct. 7, 2008 as President
iii Elected on Jul. 31, 2008; resigned on Jan. 8, 2009
iv Passed away on Aug. 20, 2008
v Elected effective Oct. 20, 2008
vi Elected on Jul. 31, 2008
vii Elected on Jul. 31, 2008; resigned on Jan. 8, 2009
viii Elected on Jul. 31, 2008; resigned effective Nov. 6, 2008
ix Resigned effective Jul. 30, 2008
x Elected effective Dec. 2, 2008
* AOC Directors; resigned on Jul. 29, 2008
** Elected on Jan. 8, 2009

N. B. Members of Committees as of Feb. 27, 2009: BCC-Ang, Ongpin, Mendoza, and Salud; BAC: Boncodin, Haddock, Mendoza, and Salud: BNC- Salud, Recto, and Mendoza; BEC – Ang, Ongpin, and Recto

Corporate Governance

C. DISCLOSURE AND TRANSPARENCY

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

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

Reports required to be given to the stockholders pursuant to its By-Laws and the Securities and Regulation Code and submissions to the SEC/PSE, including quarterly financial reports, annual report and disclosures, General Information Sheet (GIS), requests for explanation or information on news items are complied with. These disclosures may be accessed by the public at the company's website. Pursuant to the requirements of the Securities and Exchange Commission, the Corporate Secretary and Compliance Officer has submitted in November 2008 the Corporate Governance (CG) Scorecard Survey for publicly-listed companies, a project of the Institute of Corporate Directors (ICD) in collaboration with PSE, SEC and the Ateneo School of Law. It has also submitted in January 2009 the required yearly certification to the SEC/PSE on the compliance by the company with its Corporate Governance Manual.

In 2008, Petron managed to maintain its zero-penalty status with the SEC and PSE in terms of disclosures and compliance with reportorial requirements.

For 2008, Petron was adjudged as being among the top 20 best governed publicly-listed companies out of 138 publicly-listed companies. The corporate governance rating was undertaken by the ICD in collaboration with the Securities and Exchange Commission, Philippine Stock Exchange and the Ateneo Law School. In January 2009, the Company was cited by the Management Association of the Philippines as one of the top 20 companies with the best annual report.

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

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

Audit Committee Report

The Board of Directors -- Petron Corporation

The Audit Committee assists the Board of Directors in its oversight function with respect to the adequacy and effectiveness of internal control environment, compliance with corporate policies and regulations, integrity of the financial 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 2008:

- 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.
- On the basis of a favorable performance appraisal on their first year as external auditor of Petron, the Audit Committee endorsed and the stockholders approved the reappointment of Punongbayan & Araullo as the company's independent auditors for 2008. For greater transparency and in accordance with good corporate governance practice, the Board of Directors decided in 2007 to change the company's external auditors (SGV & Co.), whose services have been engaged by Petron for 13 consecutive years.
- The independent auditors, Punongbayan & Araullo, presented to and discussed with the Committee the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements.
- The Audit Committee reviewed with Punongbayan & Araullo, the external auditors' audit observations and recommendations on the company's internal controls and management's response to the issues raised.
- The Committee reviewed with the Internal Audit 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 Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period.
- The Audit Committee approved the initiative for the company's Internal Audit Department to undergo for the first time a Quality Assurance Review by an accredited evaluator, and reviewed and approved the engagement and related fees of the chosen service provider.
- The Committee reviewed and approved the Internal Audit Charter which was updated to fully align with ISPPIA standards.
- We reviewed and approved the engagement of services and related fees of an outsourced IT audit service covering the review of the Refinery's Distributed Control System.

All the members of the Audit Committee are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2008.

Independent Quality Assurance Review Report

Manabat Sanagustin & Co.
Certified Public Accountants
The KPMG Center, 9/F
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The Board Audit Committee
Petron Corporation
Petron MegaPlaza,
358 Sen. Gil Puyat Ave.
Makati City, 1200 Philippines

We have conducted a quality assurance review of the Internal Audit Activity ("IA Activity") of Petron Corporation from various dates within the year through November 28, 2008.

Respective Responsibilities
Management is responsible for establishing an IA Activity which complies with the International Standards for the Professional Practice of Internal Auditing (Standards) and Code of Ethics issued by the Institute of Internal Auditors (IIA).

Our responsibility is to express an opinion based on our quality assurance review. Our quality assurance review was conducted in accordance with the Standards. Those standards require us to comply with ethical requirements of the Code of Ethics and to plan and conduct the quality assurance review to obtain reasonable assurance that the IA Activity conforms to the IIA Standards and Code of Ethics.

A quality assurance review involves performing procedures to obtain evidence on the effectiveness of the IA Activity. The procedures include an evaluation of the IA Activity's mandate, performance, and processes against the IIA Standards and Code of Ethics to measure the alignment of IA Activity's expectations with that of its customers and stakeholders.

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

Opinion
Based on the procedures performed, our overall opinion is that the IA Activity of Petron Corporation **generally complies** with the IIA Standards and Code of Ethics as of November 28, 2008.

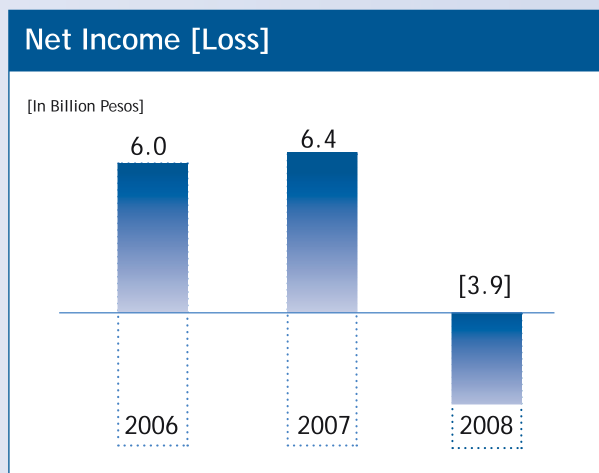
"Generally Complies" means that the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the Standards and Code of Ethics in all material respects.

Manabat Sanagustin & Co.

Reginald C. Nery
Partner
November 28, 2008

Financial Highlights

CONSOLIDATED NET INCOME

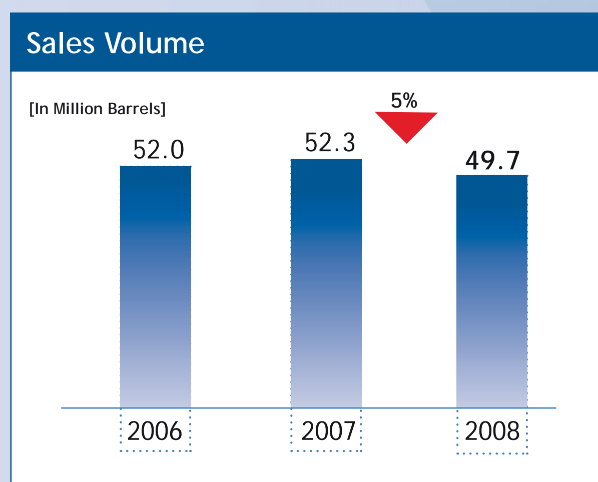


The year 2008 was an abnormal period for oil refiners in the region who experienced extreme volatility in the price of crude oil which is their main input. Crude prices increased to a high of US$141 a barrel in July but subsequently went down by 92% within a span of four months to average around US$40 a barrel. During the period of declining crude prices, your Company's margins contracted as domestic prices were reduced faster than the decline in crude costs.

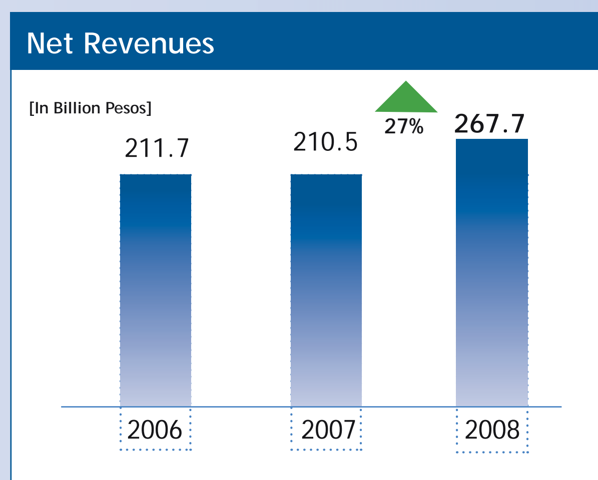
On the other hand, during the months of rising crude prices, Petron had to resort to increased borrowings to finance the more expensive raw material. The increase in the level of working capital debt as well as the rise in interest costs owing to the prevailing financial turmoil and economic downturn resulted in higher financing costs.

Consequently, with a four-month consecutive operating losses, your Company incurred a loss of ₱3.9 billion, a reversal of the ₱6.4 billion net income in 2007.

Sales volume recorded a 5% drop from the previous year's 52.3 to 49.7 million barrels this year. Export sales went down by 18% or 1.9 million barrels while domestic sales declined by 2% or 0.7 million barrels as demand contracted due to record-high fuel prices.



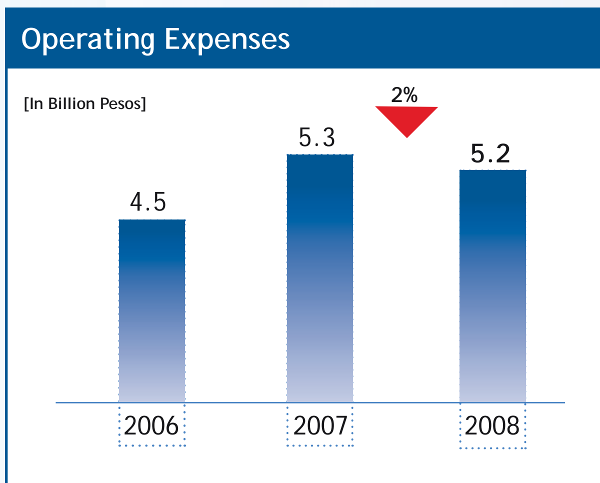
Revenues, on the other hand, rose by 27% from the same period last year. The improvement was essentially due to the series of price hikes during the first half of the year. Revenues were likewise augmented by an improved sales mix with the commissioning of the Company's Petro Fluidized Catalytic Cracking Unit (PFCCU) and Propylene Recovery Unit (PRU) that enabled the refinery to produce more high-valued white products.



Financial Highlights

The significant decline in profits was largely attributed to the margin squeeze after regional prices of petroleum products plummeted, triggering successive rollbacks in domestic fuel prices starting in August 2008. Petron's selling price, which closed at US$101.66 per barrel fell below the average cost of crude at US$106.85 per barrel in December. This gravely affected your Company's income performance as it carried an inventory equivalent to about two months' supply. Moreover, the steep decline in crude and product prices required the Company to markdown its inventory.

OPERATING EXPENSES



Selling and administrative expenses were judiciously kept at ₱5.2 billion, showing a reduction of 2% from the preceding year's ₱5.3 billion. The improved operating cost efficiency was attributed to better management of advertising, repairs and maintenance, LPG cylinder purchases and employee-related expenses.

The ₱4.2 billion interest expense largely on short-term loans exhibited a sharp rise of more than 200% over the prior year's level of ₱1.8 billion. When crude prices were on the rise, the Company's short-term borrowing levels increased to ₱36.4 billion compared with ₱21.3 billion in 2007. Average interest rates also climbed to 7.2% in 2008 as against the previous year's 5.4% as an aftermath of the global financial crisis.

FINANCIAL POSITION

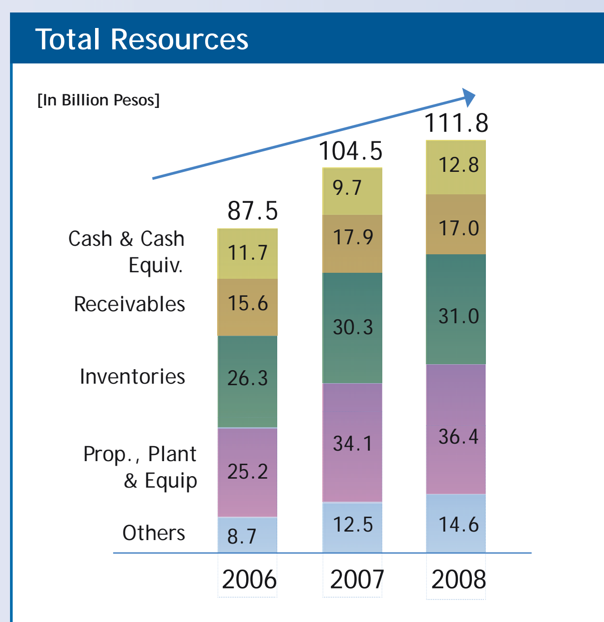
Your Company maintained a strong financial condition. At year end, total resources grew by 7% to close at ₱111.8 billion. The increase came mostly from cash and cash equivalents which went up by 32% to ₱12.8 billion as working capital management strategies led to a shorter cash cycle of 53 days from 70 days in 2007. Property, plant and equipment also rose to ₱36.4 billion over last year's ₱34.1 billion with the completion of the PFCCU facility and the start of construction of the Benzene, Toluene, and Mixed Xylene (BTX) plant, both at the refinery.

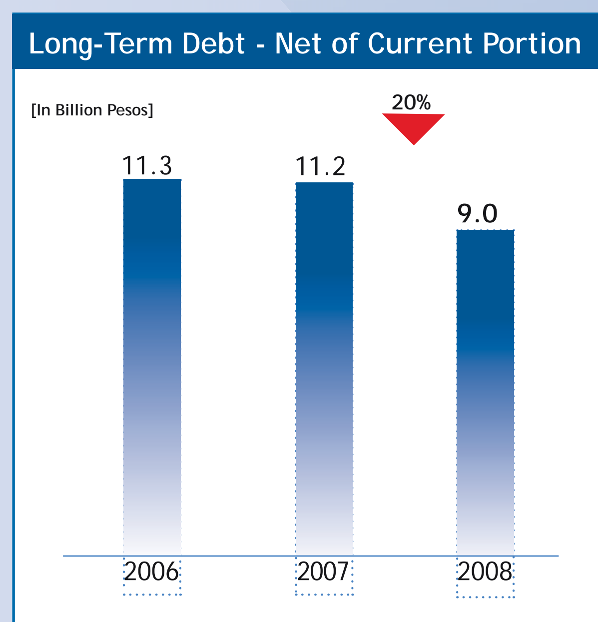
Long-term debt inclusive of current portion, decreased by 20% or ₱2.2 billion with the settlement of the NORD (Nordeutsche Landesbank Girozentrale) loan in December amounting to US$45 million.

Total equity amounted to ₱32.9 billion posting a 13% reduction owing mainly to the net loss reported by the Parent Company and dividends declaration.

Despite these setbacks, your Company remained solid with a healthy current ratio of 1.1:1 and ratio of debt to equity of 2.4:1 which were within the covenants set by creditor banks.

Financial Highlights





OPERATING CASH FLOW

The Petron Group generated consolidated cash outflows of ₱3.5 billion, a turnaround from the ₱5.7 billion inflows the previous year. The negative cash flow was due essentially to decreased cash earnings coupled with higher borrowing level.

In Million Pesos	2008	2007	2006
EARNINGS BEFORE INTEREST & TAXES - EBIT	(1,852)	9,908	9,730
EARNINGS BEFORE INTEREST, TAXES, DEPR. & AMORT. - EBITDA	1,275	13,336	12,699
OPERATING CASH FLOW	(3,524)	5,663	3,075

The loss sustained by the Company weakened EBITDA posting a year-on-year decline of 90% to ₱1.3 billion from ₱13.3 billion as of end-2007.

FINANCIAL STATEMENTS

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Statement of Management's Responsibility For Financial Statements

The management of Petron Corporation is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2008, 2007 and 2006. The financial statements have been prepared in conformity with the Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

RAMON S. ANG
Chairman and Chief Executive Officer

ERIC O. RECTO
President

EMMANUEL E. ERAÑA
Chief Finance Officer

ANTONIO G. PELAYO
Vice President - Finance and Subsidiaries

MA. CRISTINA M. MENORCA
Controller

Independent Auditors' Report

PUNONGBAYAN & ARAULLO

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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 statements of financial position as at December 31, 2008 and 2007, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

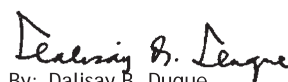
Opinion

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

Other Matters

The consolidated financial statements of Petron Corporation and subsidiaries for the year ended December 31, 2006 were audited by other auditors whose report, dated April 3, 2007, expressed an unqualified opinion on those statements.

PUNONGBAYAN & ARAULLO



By: Dalisay B. Duque
Partner
CPA Reg. No. 0022692
TIN 140-240-854
PTR No. 1566056, January 5, 2009, Makati City
SEC Accreditation No. 0012-AR-2
BIR AN 08-002511-9-2008 (Nov. 25, 2008 to 2011)

February 27, 2009

Consolidated Statements of Financial Position

December 31, 2008 and 2007
(With Comparative Figures for 2006)
(Amounts in Million Pesos)

	Notes	2008	2007	2006
ASSETS				
Current Assets				
Cash and cash equivalents	4	**₱12,827**	₱9,732	₱11,735
Financial assets at fair value through profit or loss	5	**161**	229	180
Available-for-sale investments	6	**331**	164	103
Receivables - net	7	**16,875**	17,869	15,629
Inventories - net	8	**30,792**	30,271	26,289
Other current assets	11	**11,977**	10,672	7,054
Total Current Assets		**72,963**	68,937	60,990
Noncurrent Assets				
Available-for-sale investments	6	**351**	468	529
Property, plant and equipment - net	9	**36,428**	34,122	25,153
Investment properties - net	10	**246**	208	222
Deferred tax assets - net	22	**885**	1	1
Other noncurrent assets	11	**925**	738	621
Total Noncurrent Assets		**38,835**	35,537	26,526
TOTAL ASSETS		**₱111,798**	₱104,474	₱87,516
LIABILITIES AND EQUITY				
Current Liabilities				
Short-term loans	12	**₱53,979**	₱33,784	₱28,135
Liabilities for crude oil and petroleum product importation	23	**8,907**	12,873	7,541
Accounts payable and accrued expenses	13	**4,562**	4,544	3,731
Income tax payable		**22**	523	452
Current portion of long-term debt - net	14	**1,263**	1,604	1,633
Total Current Liabilities		**68,733**	53,328	41,492
Noncurrent Liabilities				
Long-term debt - net of current portion	14	**8,988**	11,176	11,279
Deferred tax liabilities - net	22	**8**	1,268	1,443
Other noncurrent liabilities	15	**1,166**	914	1,049
Total Noncurrent Liabilities		**10,162**	13,358	13,771
Total Liabilities		**78,895**	66,686	55,263
Equity Attributable to Equity Holders of the Parent				
Capital stock	16	**9,375**	9,375	9,375
Retained earnings	16	**23,776**	28,692	23,253
Other reserves		**(473)**	(412)	(490)
Equity Attributable to Equity Holders of the Parent		**32,678**	37,655	32,138
Minority Interest		**225**	133	115
Total Equity		**32,903**	37,788	32,253
TOTAL LIABILITIES AND EQUITY		**₱111,798**	₱104,474	₱87,516

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

For the Years Ended December 31, 2008 and 2007
(With Comparative Figures for the year ended December 31, 2006)
(Amounts in Million Pesos, Except Per Share Amounts)

	Notes	2008	2007	2006
SALES	26	**₱267,676**	₱210,520	₱211,726
COST OF GOODS SOLD	17	**264,306**	195,287	197,514
GROSS PROFIT		**3,370**	15,233	14,212
SELLING AND ADMINISTRATIVE EXPENSES	18	**(5,222)**	(5,325)	(4,482)
INTEREST EXPENSE	21	**(4,180)**	(1,814)	(2,684)
INTEREST INCOME	21	**354**	344	371
OTHERS - Net	21	**(115)**	912	487
INCOME (LOSS) BEFORE TAX		**(5,793)**	9,350	7,904
TAX EXPENSE (BENEFIT)	22/32			
Current		**240**	3,165	1,723
Deferred		**(2,113)**	(210)	163
		(1,873)	2,955	1,886
NET INCOME (LOSS)		**(₱3,920)**	₱6,395	₱6,018
Attributable to:				
Equity holders of the parent	27	**(₱3,978)**	P6,377	P6,011
Minority interest		**58**	18	7
		(₱3,920)	₱6,395	₱6,018
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY - BASIC AND DILUTED	27	**(₱0.42)**	₱0.68	₱0.64

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2008 and 2007
(With Comparative Figures for the year ended December 31, 2006)
(Amounts in Million Pesos)

	Notes	2008	2007	2006
NET INCOME (LOSS) FOR THE YEAR		(₱3,920)	₱6,395	₱6,018
OTHER COMPREHENSIVE INCOME (LOSS)				
Actuarial gain (loss) on defined pension plan [net of tax effects of (₱28), ₱38 and (₱242) in 2008, 2007 and 2006, respectively]	25	(64)	88	(633)
Unrealized fair value gain (loss) on available-for-sale investments [net of tax effects of (₱2), (₱5) and ₱8 in 2008, 2007 and 2006, respectively]	6	(3)	(9)	15
Exchange difference in translating foreign operations		6	(1)	-
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX		(61)	78	(618)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		(₱3,981)	₱6,473	₱5,400
Attributable to:				
Equity holders of the parent		(₱4,039)	₱6,455	₱5,393
Minority interest		58	18	7
		(₱3,981)	₱6,473	₱5,400

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes In Equity

For the Years Ended December 31, 2008 and 2007
(With Comparative Figures for the year ended December 31, 2006)
(Amounts in Million Pesos, Except Per Share Amounts)

		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, 2008	**16**	**₱9,375**	**₱21,172**	**₱7,520**	**(₱412)**	**₱37,655**	**₱133**	**₱37,788**
Total comprehensive income (loss) for the year		**-**	**-**	**(3,978)**	**(61)**	**(4,039)**	**58**	**(3,981)**
Appropriation for capital projects	**16**	**-**	**2,748**	**(2,748)**	**-**	**-**	**-**	**-**
Cash dividends - ₱0.10 per share	**16**	**-**	**-**	**(938)**	**-**	**(938)**	**-**	**(938)**
Issuance of shares		**-**	**-**	**-**	**-**	**-**	**34**	**34**
Balance at December 31, 2008		**₱9,375**	**₱23,920**	**(₱144)**	**(₱473)**	**₱32,678**	**₱225**	**₱32,903**
Balance at January 1, 2007	16	₱9,375	₱17,021	₱6,232	(₱490)	₱32,138	₱115	₱32,253
Total comprehensive income for the year		-	-	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 (loss) 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

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2008 and 2007
(With Comparative Figures for the year ended December 31, 2006)
(Amounts in Million Pesos)

	Notes	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before tax		(₱5,793)	₱9,350	₱7,904
Adjustments for:				
Depreciation and amortization	20	3,242	2,516	2,482
Interest expense	21	4,180	1,814	2,684
Unrealized foreign exchange gains - net		(40)	(520)	(382)
Interest income	21	(354)	(344)	(371)
Others		(15)	(81)	(122)
Operating income before working capital changes		1,220	12,735	12,195
Changes in operating assets and liabilities	28	(651)	(2,637)	(5,635)
Interest paid		(3,830)	(1,680)	(2,383)
Income taxes paid		(616)	(3,098)	(1,454)
Interest received		353	343	352
Net cash provided by (used in) operating activities		(3,524)	5,663	3,075
CASH FLOWS FROM INVESTING ACTIVITIES				
Disposals of (Additions to):				
Property, plant and equipment	9	(5,534)	(11,471)	(5,052)
Investment properties	10	(52)	-	-
Decrease (increase) in:				
Other receivables		(4,522)	(956)	(2,590)
Other noncurrent assets		(278)	5	(61)
Reductions from (additions to):				
Financial assets at fair value through profit or loss		-	-	1
Available-for-sale investments		(49)	(9)	(24)
Net cash used in investing activities		(10,435)	(12,431)	(7,726)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans		142,650	69,625	157,460
Payments of:				
Loans		(125,045)	(63,789)	(144,433)
Cash dividends		(924)	(927)	(928)
Increase (decrease) in other noncurrent liabilities		327	(134)	378
Net cash provided by financing activities		17,008	4,775	12,477
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		46	(10)	(31)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,095	(2,003)	7,795
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		9,732	11,735	3,940
CASH AND CASH EQUIVALENTS AT END OF YEAR		₱12,827	₱9,732	₱11,735

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007
(With Comparative Figures for 2006)
(Amounts in Million Pesos, Except Par Value, Share and Per Share Amounts, Exchange Rates, and Commodity Volumes)

1. Corporate Information

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

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

Through its 1,288 service stations, Petron retails 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. To broaden its market base and further strengthen its leadership in the LPG business, Petron launched a second LPG brand called "Fiesta Gas" early in 2008.

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

Petron recently completed the construction of a Fuel Additives Blending facility at the Subic Bay Freeport. This plant serves the needs of Innospec, a leading global fuel additive company, in the Asia-Pacific region. At the same time, Petron sources its requirements from this plant.

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 and non-fuel products to Asia-Pacific countries such as Cambodia, South Korea, China, Australia and Indonesia.

Petron's shares of stock or securities are listed for trading at the Philippine Stock Exchange (PSE). Prior to the entry of the Ashmore Group in July 2008, the Philippine National Oil Company (PNOC) and the Aramco Overseas Company B.V. (AOC) each owned a 40% share in equity of Petron. The remaining 20% was then held by more than 180,000 stockholders.

On March 13, 2008, AOC, entered into a share purchase agreement with Ashmore Investment Management Limited and subsequently issued a Transfer Notice to PNOC to signify its intent to sell its 40% equity stake in Petron. PNOC eventually waived its right of first offer to purchase AOC's interest in Petron. A total of 990,979,040 common shares were tendered representing 10.57% of the total outstanding common shares of Petron. Together with the private sale of AOC's 40% interest in Petron, the Ashmore Group, thru its corporate nominee SEA Refinery Holdings B.V. (SEA BV), a company incorporated in The Netherlands, acquired 50.57% of the outstanding common shares in Petron in the latter part of July 2008. SEA BV is a company owned by funds managed by the Ashmore Group.

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

On December 24, 2008, San Miguel Corporation (SMC) and SEA BV entered into an Option Agreement granting SMC the option to buy the entire ownership interest of SEA BV in its local subsidiary, SRC. The option may be exercised by SMC within a period of two years from December 24, 2008. Under the Option Agreement, it was provided that SMC will have representation in the Petron Board and Management. In the implementation of the Option Agreement between SMC and SEA BV, SMC representatives were elected to the Petron's Board and appointed as senior officers last January 8, 2009.

In its meeting on February 27, 2009, the Petron Board approved the amendment of the Articles of Incorporation to include the generation and sale of electric power in its Primary Purpose. The objective is principally to lower the refinery power cost thru self-generation and, in the event there is excess power, to sell the same to third parties. The Board also approved an increase of the capital stock from the current ₱10,000 to ₱25,000 through the issuance of preferred shares, raising funds for capital expenditures related to expansion programs, and possibly, to reduce some of the Company's debts. Both items will be submitted for stockholder's approval on May 12, 2009.

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

The registered office address of Petron and its Philippine-based subsidiaries (except Petron Freeport Corporation which has its principal offices in the Subic Special Economic Zone) is Petron MegaPlaza, 358 Sen. Gil Puyat Avenue, Makati City. The registered office of SEA BV is located at Prins Bernhardplein 200, 1097 JB, Amsterdam, The Netherlands.

The accompanying consolidated financial statements for the year ended December 31, 2008 (including comparatives for the years ended December 31, 2007 and 2006) were approved and authorized for issue by the Board of Directors (BOD) on February 27, 2009.

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.

Statement of Compliance

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

Impact of New Amendments and Interpretations to Existing Standards
The following are the amendments, and interpretations to existing standards effective in 2008 that are relevant to the Company:

- *PAS 39 (Amendment), Financial Instruments: Recognition and Measurement and PFRS 7 (Amendment), Financial Instruments: Disclosures* became effective from July 1, 2008. These amendments permit an entity to reclassify non-derivative financial assets (other than those designated at FVPL by the entity upon initial recognition) out of FVPL category in particular circumstances; and to transfer from the AFS category to the loans and receivable category those financial assets that would have met the definition of loans and receivables, provided that the entity has the intention and the ability to hold those financial assets for the foreseeable future.

  The amendments are applicable in a partially retrospective manner up to July 1, 2008 provided that the reclassification was made on or before November 15, 2008, the cut-off date set by the FRSC. After the cut-off date, all reclassifications will only take effect prospectively.

  The Company did not exercise the option to reclassify any of its financial assets; hence, it determined that the adoption of these amendments has no impact on the 2008 consolidated financial statements.

- *Philippine Interpretation IFRIC 11, and PFRS 2 - Group and Treasury Share Transactions* became 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 has no impact on the Company since it does not have share-based transactions either with employees or third parties.

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

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

- *Philippine Interpretation IFRIC 14, PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* became 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's adoption of this interpretation on January 1, 2008 did not have significant impact on its consolidated financial statements. The Company is in compliance with this interpretation.

The following are the amended standards and interpretations effective subsequent to 2008 that have been early adopted by the Company.

- *PFRS 8, Operating Segments,* became 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 early adopted this standard as the Company's segment reporting disclosure were significantly in compliance starting 2003 with the required additional disclosures of this new standard.

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

- *PAS 23, Borrowing Costs* became 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 will have no impact on the consolidated financial statements as the Company's accounting policy is to capitalize all interest directly related to qualifying assets.

The following are standards, amendments, interpretations and 2008 annual improvements to PFRS issued by the FRSC that are not yet effective and have not been adopted early by the Company. These amendments will become effective in annual periods beginning on or after January 1, 2009. The Company assess the impact of the amendments to the following standards to be relevant to the Company's accounting policies.

- *PFRS 3 (Revised 2008), Business Combinations.* The revised standard is applicable for business combinations occurring in reporting periods beginning on or after July 1, 2009 and will be applied prospectively. The revision introduces changes to the accounting requirements for business combinations, but still requires use of the purchase method.

  This standard will be applied by the Company in 2010; however, management does not expect material impact unless there will be business combinations at the time of its adoption.

- *PAS 27 (Revised 2008), Consolidated and Separate Financial Statements.* This standard is effective July 1, 2009 and introduces changes to the accounting requirements when control of a subsidiary is lost and for changes in the Parent Company's ownership interest in subsidiaries.

  Management does not expect the amendment to the standard to have a material effect on the Company's consolidated financial statements.

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

  The Company will determine the need to present its financial assets at FVPL following the normal classification principles under PAS 1; however, management does not expect material adjustments as a result of the adoption of this amendment in 2009.

- *PAS 19 (Amendment), Employee Benefits.* The amendment includes the following:

  - Clarification that a curtailment is considered to have occurred to the extent that benefit promises are affected by future salary increases and a reduction in the present value of the defined benefit obligation results in negative past service cost.

  - Change in the definition of return on plan assets to require the deduction of plan administration costs in the calculation of plan assets return only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  - Distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  - Removal of the reference to recognition in relation to contingent liabilities in order to be consistent with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, which requires contingent liabilities to be disclosed and not recognized.

  The Company assessed that this amendment to PAS 19 will have no impact on its 2009 consolidated financial statements.

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

  The Company initially determined that adoption of this amendment will not have a material effect on its 2009 consolidated financial statements.

Minor amendments are made to several other standards; however, those amendments are not expected to have a material impact on the Company's consolidated financial statements.

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 Parent Company.

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

The consolidated subsidiaries 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	40.00	Philippines

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 in the equity section of the consolidated statement of financial position, separate from Equity Attributable to Equity Holders of the Parent. 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 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. As of December 31, 2008, Petron's original ownership interest of 79.95% in NVRC became 40% due to NVRC's increase in authorized capital stock which was subscribed to by the Petron Corporation Retirement Fund. NVRC remains a subsidiary of Petron since the operating and financial decisions of NVRC still rest with Petron.

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

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). The Company has no capital commitments in relation to its interest in this joint venture.

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

Foreign Currency-Denominated Transactions and Translations
Foreign currency transactions are translated into the functional currency of the Company, using the exchange rate at the date of the transaction. Exchange gains or losses arising from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates 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 this subsidiary are carried out as an extension of the Parent Company.

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

Classified as financial assets at FVPL are the Company's investments in marketable equity securities and proprietary membership shares and derivative assets (see Note 31). The Company's financial liabilities at FVPL as of December 31, 2008, 2007 and 2006 only pertains to derivative liabilities (see Note 31).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Financial assets are carried at cost or amortized cost, using the effective interest method, in the consolidated

statement of financial position. Interest on loans and receivables is included in the "Interest Income" account in the consolidated statements of income. 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 with maturity within 12 months from the statement of financial position date are classified either as part of current assets. Otherwise, these are classified as noncurrent assets.

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

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

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

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

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

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

Where the Company holds more than one investment in the same security, these are deemed to be disposed on a first-in, first-out basis. 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 31).

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

Assets under this category are classified as current assets if maturity is within 12 months from the 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, 2008, 2007 and 2006.

Impairment of Financial Assets

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

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

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

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

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

statement of income; if the increase in fair value of the investment can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

De-recognition of Financial Instruments

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

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

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

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

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

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

Offsetting Financial Instruments

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

Inventories

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

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

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

Property, Plant and Equipment

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

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

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

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

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

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

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment. The residual value, if any, is also reviewed and adjusted if appropriate, at 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 consolidated statement of income in the year the item is de-recognized.

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

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

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

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

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

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

Employee Benefits
The Company has a tax qualified and fully funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized in 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.

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

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

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

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

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

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

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

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

Sale of goods. Revenue is recognized when 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 at the time the right to receive the payment is established.

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

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

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

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

Expense
Cost and expenses are recognized in the consolidated 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.

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 (classified 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.

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

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

consolidated statement of income on a straight-line basis over the lease term.

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

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

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

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

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

d. There is a substantial change to the asset.

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

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

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

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.

Equity
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 defined benefit pension plan.

Dividend distributions payable to equity shareholders are included under "Accounts Payable and Accrued Expenses" account when the dividends have been approved in a general meeting prior to or on the statement of financial position date.

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

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

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

Subsequent Events
Any post-year-end events that provide additional information about the Company's consolidated 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.

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

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

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

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

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

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

Estimations and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the 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, the Company's Management uses sound judgment based on the best available facts and circumstances, included but not limited to, the length of relationship with the customers 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 ₱71 and ₱50 in 2008 and 2007, respectively (see Note 18). There was no impairment loss required to be provided in 2006 based on management's evaluation. Receivables written off amounted to ₱7, ₱3 and ₱4 in 2008, 2007 and 2006, respectively. The carrying value of receivables, amounted to ₱16,875, ₱17,869 and ₱15,629 as of December 31, 2008, 2007 and 2006, respectively (see Note 7).

Net Selling Prices of Inventories. In determining the net selling price of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amounts of inventories of ₱30,792, ₱30,271 and ₱26,289 as at the end of 2008, 2007 and 2006, respectively (see Note 8) is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial year.

Inventory write-down in 2008 to its net realizable value amounted to ₱2,441. In 2007 and 2006 the net realizable value of inventories is higher than its cost.

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

Reduction in the allowance for inventory obsolescence amounted to ₱40 and ₱93 in 2007 and 2006, respectively (see Note 8). There was no reversal in the allowance made in 2008.

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

expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment and investment properties would increase the recorded cost of goods sold, selling and administrative expenses, and decrease noncurrent assets.

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

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

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

Estimated fair values of investment property (office units) amounted to ₱219, ₱214 and ₱202 as of December 31, 2008, 2007 and 2006, respectively. Management believes that the fair values of the parcels of land are higher than their carrying values as of those dates (see Note 10).

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

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

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

No impairment loss was required to be recognized in 2008, 2007 and 2006. The aggregate carrying amount of property, plant and equipment, and investment properties amounted to ₱36,674, ₱34,330 and ₱25,375 as of December 31, 2008, 2007 and 2006, respectively (see Notes 9 and 10).

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

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

- *Financial Assets at FVPL and AFS Investments.* Market values have been used to determine the fair values of traded government securities and equity shares. Market value is determined mainly by reference to the stock exchange quoted market bid prices at the close of business on the 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. Mark-to-market valuation of commodity hedges is based on the forecasted crude and product prices by KBC Market Services, an independent consulting group.
- *Cash Bonds.* Fair value is estimated as the present value of all future cash flows discounted using the market rates for similar types of instruments. Discount rates used in 2008, 2007 and 2006 are 6.44%, 5.76% and 5.69%, respectively.
- *Long-term Debt - Floating Rate.* For variable rate loans that re-price every three months, the carrying value approximates its fair value because of recent and regular re-pricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting, the principal amount plus the next interest payment, using the prevailing market rate for the period up to the next re-pricing date. Average discount rates used in 2008, 2007 and 2006 are 6.99%, 6.31% and 5.14%, respectively.

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

Net pension plan assets amounted to ₱299, ₱509 and ₱434 as of December 31, 2008, 2007 and 2006, respectively (see Note 11).

Asset Retirement Obligation. The Company has an asset retirement obligation arising from leased service stations and depots. Determining asset retirement obligation requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Company determined the amount of asset retirement obligation, by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Company's current credit-adjusted risk-free rate ranging from 6.60% to 11.97% 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 ₱706, ₱461 and ₱660 as of December 31, 2008, 2007 and 2006, respectively (see Note 15), covers only the Company's leased service stations and depots.

Realizable Amount of Deferred Tax Assets. The Company reviews its deferred tax assets at 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, 2008, 2007 and 2006, the gross deferred tax assets amounted to ₱3,170, ₱1,309 and ₱824, respectively (see Note 22).

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

No provision for probable losses arising from contingencies was required to be recognized in 2008, 2007 and 2006 (see Note 35).

4. Cash and Cash Equivalents

	2008	2007	2006
Cash on hand	₱4,536	₱2,862	₱1,954
Cash in banks	2,778	3,385	1,813
Money market placements	5,513	3,485	7,968
	₱12,827	₱9,732	₱11,735

Cash in banks earn interest at the respective bank deposit rates. Money market placements are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest (see Note 21) at the respective money market placement rates ranging from 2.5% to 6.8% (2008), 1.5% to 6.0% (2007) and 3.0% to 7.9% (2006).

5. Financial Assets at FVPL

	2008	2007	2006
Marketable equity securities	₱88	₱152	₱131
Proprietary membership shares	73	77	49
	₱161	₱229	₱180

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

Changes in fair value recognized in 2008, 2007 and 2006 amounted to (₱67), ₱49, and ₱63, respectively (see Note 21).

6. AFS Investments

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

Petrogen's government securities are deposited with the Insurance Commission (IC) in accordance with the provisions of the IC, for the benefit and security of its policyholders and creditors. These investments bear fixed interest rates of 6.8% to 14.6% in 2008, 6.9% to 11.9% in 2007 and 8.5% to 14.6% in 2006, (see Note 21).

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

Following is the breakdown of investments by contractual maturity dates as of December 31, 2008, 2007 and 2006:

	2008	2007	2006
Due in one year or less	₱331	₱164	₱103
Due after one year through five years	351	468	529
	₱682	₱632	₱632

The movements in the AFS investments as of December 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
Balance at the beginning of year	₱632	₱632	₱586
Additions	207	138	302
Disposals	(163)	(103)	(260)
Amortization of discount (premium)	(3)	(28)	33
Fair value gains (losses) - net	(7)	11	(19)
Foreign currency gains (losses)	16	(18)	(10)
Balance at the end of year	₱682	₱632	₱632

7. Receivables

	2008	2006	2005
Trade	₱7,339	₱12,715	₱11,219
Related parties - trade (see Note 23)	63	100	71
Allowance for impairment loss on trade receivables	(744)	(696)	(664)
	6,658	12,119	10,626
Related parties - non-trade (see Note 23)	2	2	2
Government	7,751	4,440	3,847
Others	2,502	1,336	1,174
Allowance for impairment loss on non-trade receivables	(38)	(28)	(20)
	10,217	5,750	5,003
	₱16,875	₱17,869	₱15,629

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

Government receivables pertain to tax claims, such as VAT and specific tax claims. ₱6,098 of these receivables is over 30 days but less than one year. The filing and the collection of claims is a continuous process and is closely monitored.

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

Credit risk concentration is discussed in Note 30.

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

A reconciliation of the allowance for impairment at the beginning and end of 2008, 2007 and 2006 is shown below.

	2008	2007	2006
Balance at beginning of the year	₱724	₱684	₱847
Additions (see Note 18)	71	50	-
Write off	(7)	(3)	(4)
Reversal (see Note 21)	-	-	(154)
Interest income on accretion (see Note 21)	(6)	(7)	(5)
Balance at the end of year	₱782	₱724	₱684

As of December 31, 2008, 2007 and 2006, the age of past due but not impaired trade accounts receivable (TAR) is as follows (see Note 30):

	Past Due But Not Impaired				
	Within 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Dec. 31, 2008					
Reseller	**₱46**	**₱3**	**₱3**	**₱22**	**₱74**
Lubes	**1**	**9**	**7**	**16**	**33**
Gasul	**20**	**31**	**70**	**69**	**190**
Industrial	**41**	**383**	**115**	**504**	**1,043**
Others	**4**	**5**	**32**	**130**	**171**
Total TAR	**₱112**	**₱431**	**₱227**	**₱741**	**₱1,511**
Dec. 31, 2007					
Reseller	₱106	₱13	₱6	₱15	₱140
Lubes	7	48	10	6	71
Gasul	15	101	52	77	245
Industrial	158	1,314	231	455	2,158
Others	4	5	44	160	213
Total TAR	₱290	₱1,481	₱343	₱713	₱2,827
Dec. 31, 2006					
Reseller	P24	P2	P5	P17	P48
Lubes	1	2	4	112	119
Gasul	30	51	41	133	255
Industrial	149	116	134	218	617
Others	4	1	5	222	232
Total TAR	₱208	₱172	₱189	₱702	₱1,271

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

8. Inventories

	2008	2007	2006
At net realizable value:			
Petroleum	**₱12,672**	₱-	₱-
Crude oil and others	**17,381**	-	-
TBA products, materials and supplies:			
TBA	**34**	17	36
Materials and supplies	**705**	582	555
	₱30,792	P599	P591
At cost:			
Petroleum	**₱-**	₱12,341	₱13,793
Crude oil and others	**-**	17,331	11,905
	-	29,672	25,698
	₱30,792	₱30,271	₱26,289

If the Company used the moving-average method (instead of the first-in, first-out method, which is the Company's policy), the cost of petroleum, crude oil and other products would have increased by ₱2,243, ₱1,183 and ₱355 as of December 31, 2008, 2007 and 2006, respectively.

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

In 2007, new products include Sprint 4T Enduro, Sprint 4T Rider, Sprint 4T Extra and Hydrotur SW 68 while product enhancements and research activities were made on the New Petron XCS and the use of Coco Methyl Ester (CME) in the Company's diesel fuel. Research and development costs (see Note 18) on these products constituted the expenses incurred for internal projects in 2008 and 2007.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to ₱259,391, ₱191,613 and ₱194,263 in 2008, 2007 and 2006, respectively (see Note 17).

The movement in the allowance for decline in value of inventories at the beginning and end of 2008, 2007 and 2006 is shown below.

	2008	2007	2006
Balance at beginning of the year	₱301	₱341	₱434
Additions due to:			
Write-down	2,432	-	-
Obsolescence	9	-	-
Reversal of allowance for obsolescence	-	(40)	(93)
Balance at the end of year	₱2,742	₱301	₱341

Reversals of allowance for inventory obsolescence in 2007 and 2006 were charged as part of "Cost of Goods Sold – Others" account (see Note 17). These reversals resulted from:
(a) extension of the period of non-movement for lubricants, greases and additives; and,
(b) implementation of the Asset Policy based program for storehouse materials.

9. Property, Plant and Equipment

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2008, 2007 and 2006 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, 2008							
Cost	₱14,084	₱31,300	₱4,002	₱2,212	₱4,015	₱6,096	₱61,709
Accumulated depreciation and amortization	(7,094)	(12,114)	(3,102)	(1,762)	(1,209)	-	(25,281)
Net carrying amount	**₱6,990**	**₱19,186**	**₱900**	**₱450**	**₱2,806**	**₱6,096**	**₱36,428**
December 31, 2007							
Cost	₱13,436	₱18,138	₱3,551	₱2,118	₱3,985	₱15,214	₱56,442
Accumulated depreciation and amortization	(6,445)	(10,300)	(2,802)	(1,640)	(1,133)	-	(22,320)
Net carrying amount	₱6,991	₱7,838	₱749	₱478	₱2,852	₱15,214	₱34,122
December 31, 2006							
Cost	₱13,041	₱18,361	₱3,396	₱2,004	₱3,874	₱4,570	₱45,246
Accumulated depreciation and amortization	(5,829)	(9,152)	(2,552)	(1,507)	(1,053)	-	(20,093)
Net carrying amount	₱7,212	₱9,209	₱844	₱497	₱2,821	₱4,570	₱25,153
January 1, 2006							
Cost	₱8,081	₱22,105	₱3,040	₱1,793	₱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	₱710	₱442	₱2,722	₱1,542	₱22,570

A reconciliation of the carrying amounts at the beginning and end of 2008, 2007 and 2006, of property, plant and equipment, is shown below.

	Buildings and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
Balance at Jan. 1, 2008, net of accumulated depreciation and amortization	₱6,991	₱7,838	₱749	₱478	₱2,852	₱15,214	₱34,122
Additions	667	13,347	478	166	32	5,383	20,073
Disposals	(2)	(29)	(4)	(3)	-	(14,501)	(14,539)
Depreciation and amortization charges for the year (see Note 20)	(666)	(1,970)	(323)	(191)	(78)	-	(3,228)
Balance at Dec. 31, 2008, net of accumulated depreciation and amortization	**₱6,990**	**₱19,186**	**₱900**	**₱450**	**₱2,806**	**₱6,096**	**₱36,428**
Balance at Jan. 1, 2007, net of accumulated depreciation and amortization	₱7,212	₱9,209	₱844	₱497	₱2,821	₱4,570	₱25,153
Additions	432	56	157	166	123	10,644	11,578
Disposals	(13)	(91)	-	(3)	-	-	(107)
Depreciation and amortization charges for the year (see Note 20)	(640)	(1,336)	(252)	(182)	(92)	-	(2,502)
Balance at Dec. 31, 2007, net of accumulated depreciation and amortization	₱6,991	₱7,838	₱749	₱478	₱2,852	₱15,214	₱34,122
Balance at Jan. 1, 2006, net of accumulated depreciation and amortization	₱5,585	₱11,569	₱710	₱442	₱2,722	₱1,542	₱22,570
Additions	2,229	946	368	238	208	3,028	7,017
Disposals	(3)	(1,937)	(20)	(5)	-	-	(1,965)
Depreciation and amortization charges for the year (see Note 20)	(599)	(1,369)	(214)	(178)	(109)	-	(2,469)
Balance at Dec. 31, 2006, net of accumulated depreciation and amortization	₱7,212	₱9,209	₱844	₱497	₱2,821	₱4,570	₱25,153

Interest capitalized in 2008, 2007 and 2006 amounted to ₱316, ₱893 and ₱52, respectively. Capitalization rates used for general borrowings (both short- and long-term loans) were 7.20% in 2008, 5.37% in 2007 and 6.84% in 2006, while capitalization rates used for specific borrowings were the actual interest rates for those loans.

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

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

No impairment loss was required to be recognized in 2008, 2007 and 2006.

10. Investment Properties

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2008, 2007 and 2006 are as follows:

	Land	Office Units	Total
At December 31, 2008			
Cost	₱100	₱263	₱363
Accumulated depreciation	-	(117)	(117)
Net carrying amount	₱100	₱146	₱246
At December 31, 2007			
Cost	₱48	₱263	₱311
Accumulated depreciation	-	(103)	(103)
Net carrying amount	₱48	₱160	₱208
At December 31, 2006			
Cost	₱48	₱263	₱311
Accumulated depreciation	-	(89)	(89)
Net carrying amount	₱48	₱174	₱222
At January 1, 2006			
Cost	₱48	₱263	₱311
Accumulated depreciation	-	(76)	(76)
Net carrying amount	₱48	₱187	₱235

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

	Land	Office Units	Total
Net carrying amount, at January 1, 2008	₱48	₱160	₱208
Additions	104	-	104
Disposals	(52)	-	(52)
Depreciation for the year (see Note 20)	-	(14)	(14)
Net carrying amount, at December 31, 2008	₱100	₱146	₱246
Net carrying amount, at January 1, 2007	₱48	₱174	₱222
Additions	49	-	49
Disposals	(49)	-	(49)
Depreciation for the year (see Note 20)	-	(14)	(14)
Net carrying amount, at December 31, 2007	₱48	₱160	₱208
Net carrying amount, at January 1, 2006	₱48	₱187	₱235
Depreciation for the year (see Note 20)	-	(13)	(13)
Net carrying amount, at December 31, 2006	₱48	₱174	₱222

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 the office units, based on recent sale of units within the building and/or sale of units in comparative Grade A buildings, amounted to ₱219, ₱214 and ₱202 in 2008, 2007 and 2006, respectively.

The actual fair values of the parcels of land were no longer obtained from independent appraisers as at the consolidated statement of financial position date as management determined that the effect of changes in the market prices between the acquisition and reporting dates was immaterial. As of December 31, 2008, 2007 and 2006, management believes that the fair values of those parcels of land are higher than their carrying values, considering recent market transactions and specific conditions related to the parcels of land as determined by NVRC.

Rental income earned from office units amounted to ₱16, ₱15 and ₱16 in 2008, 2007 and 2006, 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 income in 2008, 2007 and 2006.

11. Other Assets

	2008	2007	2006
Current:			
Input VAT	₱10,739	₱4,768	₱3,072
Prepaid expenses	824	5,699	3,795
Special-purpose fund	201	34	33
Derivative assets	55	100	58
Others	158	71	96
	₱11,977	₱10,672	₱7,054
Noncurrent:			
Net pension plan assets (see Note 25)	₱299	₱509	₱434
Catalyst (see Note 9)	241	11	66
Long-term receivables	202	77	33
Prepaid rent	100	66	15
Others - net	83	75	73
	₱925	₱738	₱621

"Noncurrent Assets - Others" classification include franchise fees amounting to ₱9, ₱9 and ₱6 in 2008, 2007 and 2006, respectively, net of amortization of franchise fees amounting to ₱1 in all years presented. Amortization of franchise fee is included as part of "Selling and Administrative - Others" account in the consolidated statement of income (see Note 18).

12. Short-term Loans

This account pertains to unsecured peso and US dollar-denominated loans obtained from local and international banks with range of maturities from 30 to 180 days and with interest ranging from 3% to 9% (see Note 21). These loans are intended to fund the importation of crude oil and petroleum products (see Note 23), capital expenditures (see Note 9) and working capital requirements.

13. Accounts Payable and Accrued Expenses

	2008	2007	2006
Accounts payable (see Note 23)	₱1,870	₱2,372	₱1,298
Accrued expenses	1,305	1,238	1,390
Specific taxes and other taxes payable	401	443	425
Others (see Note 31)	986	491	618
	₱4,562	₱4,544	₱3,731

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

Accrued expenses include accrual of unpaid interest amounting to ₱677 (2008), ₱421 (2007) and ₱352 (2006) (see Note 31) and selling and administrative expenses that are normally settled within 12 months from the reporting date.

14. Long-term Debt

	2008	2007	2006
Unsecured peso loans (net of debt issue cost amounting to ₱50 in 2008, ₱69 in 2007 and ₱70 in 2006)	₱10,251	₱10,231	₱8,538
Syndicated dollar bank loans (net of debt issue costs amounting to ₱31 and ₱58 in 2007 and 2006, respectively)	-	2,549	4,374
	10,251	12,780	12,912
Less current portion (net of debt issue costs amounting to ₱19, ₱48 and ₱41 in 2008, 2007 and 2006, respectively)	1,263	1,604	1,633
	₱8,988	₱11,176	₱11,279

Movements of debt issue costs are as follows:

	2008	2007	2006
Beginning balance	₱100	₱128	P80
Additions	-	17	74
Accretion for the year (see Note 21)	(50)	(45)	(26)
Ending balance	₱50	₱100	₱128

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

Creditor	Landbank of the Philippines (LANDBANK)	BPI Capital Corporation and ING Bank N.V.	Norddeutsche Landesbank Girozentrale (NORD)	Club Loan (MBTC, Mega ICBC, Maybank and Robinsons)	Citibank
Original Amounts	₱2 billion	₱6.3 billion	US$100 million	₱2 billion	₱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 (June 2004-June 2009). Fully paid on December 12, 2008	13 quarterly installments starting January 2009 up to January 2012	13 quarterly installments starting April 2004 up to April 2007
Interest rates in: 2008 2007 2006	(Variable rates) 4.60% to 6.99% 4.60% to 5.84% 6.10%	(Fixed rates) 8.88% 8.88% 8.88%	(Variable rates) 3.05% to 3.58% 5.26% to 6.52% 5.70% to 6.80%	(Fixed rates) 6.73% 6.73% Not applicable	(Variable rates) Not applicable 5.18% to 7.48% 6.70% to 8.20%
Security	None	None	None	None	None
Major Covenants (see Note 29)	None	Maintenance of certain financial ratios	Maintenance of certain financial ratios	Maintenance of certain financial ratios	Maintenance of certain financial ratios

On January 30, 2007, the Company entered into a Club loan agreement with MBTC and Citibank amounting to P1,000 each. In December 2007, Citibank assigned P900 of its interest in the Club loan agreement to the following financial institutions:

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

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

As of December 31, 2008, the Company is in compliance with its loan covenants. Debt maturities (gross of ₱50 debt issue costs) for the next four years are as follows:

Year	Amount
2009	₱1,282
2010	1,282
2011	7,582
2012	155
	₱10,301

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

The total interest incurred on these long-term loans amounted to ₱964 (2008), ₱1,124 (2007) and ₱664 (2006), of which amounts, ₱201 ₱861 and ₱44, were capitalized (see Note 9).

15. Other Noncurrent Liabilities

	2008	2007	2006
ARO	₱706	₱461	₱660
Cylinder deposits (see Note 31)	201	243	206
Cash bonds (see Note 31)	205	173	141
Others (see Note 31)	54	37	42
	₱1,166	₱914	₱1,049

Movements in the ARO are as follows:

	2008	2007	2006
Beginning balance	₱461	₱660	₱298
Additions	71	1	10
Effect of change in discount rate	142	(236)	324
Accretion for the year (see Note 21)	40	36	37
Settlement (see Note 21)	(8)	-	(9)
Ending balance	₱706	₱461	₱660

16. Equity

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

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

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

b. Retained Earnings

i. Declaration of Cash Dividends

In 2008, 2007 and 2006, the Company declared a cash dividend of ₱0.10 per share amounting to ₱938 to all stockholders of record as of June 2, 2008, May 28, 2007 and June 2, 2006, respectively.

ii. Appropriation for Capital Projects

Additional appropriation for future capital projects and loan obligations amounted to ₱2,748, ₱4,151 and ₱5,369 in 2008, 2007 and 2006, respectively. On February 27, 2009, the Company's BOD approved a resolution to reverse a portion of the appropriated retained earnings (see Note 34).

17. Cost of Goods Sold

	2008	2007	2006
Inventories (see Notes 8, 23 and 26)	₱259,391	₱191,613	₱194,263
Depreciation and amortization (see Note 20)	2,172	1,538	1,536
Employee costs (see Note 19)	519	463	406
Others - net (see Notes 8 and 26)	2,224	1,673	1,309
	₱264,306	₱195,287	₱197,514

Distribution or transshipment costs included as part of inventories amounted to ₱3,801, ₱3,536 and ₱3,290 in 2008, 2007 and 2006, respectively.

18. Selling and Administrative Expenses

	2008	2007	2006
Employee costs (see Note 19)	₱1,375	₱1,481	₱1,199
Purchased services and utilities	1,202	994	817
Depreciation and amortization (see Note 20)	1,070	978	946
Maintenance and repairs	482	530	473
Rent (see Notes 23 and 24)	411	395	381
Advertising	235	495	222
Materials and office supplies	181	188	164
Taxes and licenses	136	120	104
Impairment loss on trade and other receivables (see Note 7)	71	50	-
Expenses related to oil spill incident in Guimaras (see Note 35e)	-	15	122
Others (see Note 11)	59	79	54
	₱5,222	₱5,325	₱4,482

Selling and administrative expenses include research and development expenses amounting to ₱9, ₱11 and ₱16 in 2008, 2007 and 2006, respectively.

19. Employee Costs

	2008	2007	2006
Salaries, wages and other employee costs (see Note 23)	₱1,726	₱1,847	₱1,558
Pension costs - defined benefit plan (see Note 25)	118	51	4
Pension costs - defined contribution plan	50	46	38
Other long-term employee benefits - interest subsidy	-	-	5
	₱1,894	₱1,944	₱1,605

The above amounts are distributed as follows:

	2008	2007	2006
Cost of goods sold (see Note 17)	₱519	₱463	₱406
Selling and administrative expenses (see Note 18)	1,375	1,481	1,199
	₱1,894	₱1,944	₱1,605

20. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	2008	2007	2006
Cost of goods sold -			
Property, plant and equipment (see Notes 9 and 17)	**₱2,172**	₱1,538	₱1,536
Selling and administrative expenses (see Note 18):			
Property, plant and equipment (see Note 9)	**1,056**	964	933
Investment properties (see Note 10)	**14**	14	13
	1,070	978	946
	₱3,242	₱2,516	₱2,482

21. Interest Expense, Interest Income and Others

	2008	2007	2006
Interest expense:			
Short-term loans (see Note 12)	**₱2,614**	₱990	₱1,608
Long-term debt (see Note 14)	**713**	218	594
Bank charges	**621**	436	414
Accretion on debt issue costs (see Note 14)	**50**	45	26
Accretion on ARO (see Note 15)	**40**	36	37
Product borrowings	**21**	17	31
Others	**121**	72	(26)
	₱4,180	₱1,814	₱2,684
Interest income:			
Money market placements (see Note 4)	**P225**	₱205	₱192
Trade receivables (see Note 7)	**54**	69	92
AFS investments (see Note 6)	**42**	46	58
Cash in banks (see Note 4)	**9**	8	12
Product loaning	**8**	5	9
Others	**16**	11	8
	₱354	₱344	₱371
Other income (charges):			
Foreign currency gains (loss) - net	**(₱1,707)**	₱2,283	₱388
Commodity hedging gain (losses) - net (see Note 31)	**1,159**	(806)	(13)
Rent (see Notes 10 and 24)	**357**	325	345
Mark-to-market gain (losses) (see Note 31)	**179**	(603)	(279)
Changes in fair value of financial assets at FVPL (see Notes 5 and 22)	**(67)**	49	63
Insurance claims	**33**	16	29
Gain on settlement of ARO (see Note 15)	**8**	-	9
Reversal of allowance for impairment loss on receivables (see Note 7)	**-**	-	154
Miscellaneous	**(77)**	(352)	(209)
	(₱115)	₱912	₱487

Share in the net income (loss) of PDSI amounting to ₱0.41, (₱0.42) and ₱0.35 in 2008, 2007 and 2006, respectively, is classified under "Other Income (Charges) - Miscellaneous" account.

22. Income Taxes

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

	2008	2007	2006
Current tax expense:			
Final tax	**₱52**	₱45	₱42
Regular corporate income tax (RCIT)	**65**	3,120	1,681
Minimum corporate income tax (MCIT)	**123**	-	-
	P240	₱3,165	₱1,723
Deferred tax expense (benefit):			
Relating to origination and reversal of temporary differences	**(₱1,090)**	(₱170)	₱108
Change in tax rate to 30%	**213**	(40)	55
MCIT	**(123)**	-	-
Net operating loss carry-over (NOLCO)	**(1,113)**	-	-
	(2,113)	(210)	163
Income tax expense (benefit)	**(₱1,873)**	₱2,955	₱1,886

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:

	2008	2007	2006
Income tax computed at statutory tax rates of 35%	**(₱2,028)**	₱3,273	₱2,766
Additions (reductions) resulting from:			
Change in tax rate	**400**	(39)	(55)
Income subject to income tax holiday (see Note 32)	**(171)**	(163)	(736)
Nontaxable income	**(52)**	(45)	(75)
Nondeductible interest expense	**34**	30	29
Changes in fair value of financial assets at FVPL (see Note 21)	**23**	(17)	(22)
Nondeductible expense	**17**	17	16
Interest income subjected to lower final tax and others	**(96)**	(101)	(37)
	(₱1,873)	₱2,955	₱1,886

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

Effective July 6, 2008, RA 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40% of gross sales. For 2008, the Company opted to continue claiming itemized standard deductions.

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

	Consolidated Statements of								
	Financial Position			Income			Comprehensive Income		
	2008	2007	2006	**2008**	2007	2006	**2008**	2007	2006
Deferred tax assets:									
Rental	**₱164**	₱164	₱163	**₱-**	(₱1)	₱42	**₱-**	₱-	₱-
Inventory differential	**673**	414	124	**(259)**	(290)	93	**-**	-	-
ARO	**116**	97	81	**(19)**	(16)	9	**-**	-	-
Various allowances, accruals and others	**981**	634	456	**(346)**	(178)	109	**-**	-	-
NOLCO	**1,113**	-	-	**(1,113)**	-	-	**-**	-	-
MCIT	**123**	-	-	**(123)**	-	-	**-**	-	-
	3,170	1,309	824	**(1,860)**	(485)	253	**-**	-	-
Deferred tax liabilities:									
Excess of double-declining over straight-line method of depreciation and amortization	**1,250**	1,195	1,270	**55**	(75)	3	**-**	-	-
Capitalized taxes and duties on inventories deducted in advance	**347**	334	388	**13**	(54)	(23)	**-**	-	-
Unrealized foreign exchange gain - net	**32**	320	112	**(288)**	208	15	**-**	-	-
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**572**	570	357	**2**	211	(59)	**-**	-	-
Net pension plan asset	**90**	153	130	**(35)**	(15)	(26)	**(28)**	38	(242)
Unrealized fair value gains on AFS investments	**2**	4	9	**-**	-	-	**(2)**	(5)	8
	2,293	2,576	2,266	**(253)**	275	(90)	**(30)**	33	(234)
Deferred tax expense (benefit)				**(P2,113)**	(₱210)	₱163	**(₱30)**	₱33	(₱234)
Net deferred tax assets (liabilities)	**₱877**	(₱1,267)	(₱1,442)						

Net deferred taxes of individual companies are not allowed to be offset againts net deferred tax liabilities of other companies, or vice versa, for purposes of consolidation. Net deferred tax assets of the subsidiaries, namely, NVRC and Petrogen, without right of offset presented in the consolidated statements of financial position amounted to ₱1 and ₱1 as of December 31, 2007 and 2006, respectively. As of December 31, 2008, net deferred tax liability of NVRC, Petrogen and PFC, without right of offset, amounted to ₱8.

The Company is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations. MCIT in 2008, included as part of "Deferred Tax Assets" account amounted to ₱123. No MCIT was reported in 2007 and 2006 as the RCIT amounts were higher than MCIT in those years. The Company's NOLCO and MCIT can be applied against taxable income and tax due, respectively, until 2011.

23. Related Party Transactions

The significant transactions and balances of related parties are as follows:

	2008	2007	2006
Purchase of Goods and Services			
Saudi Aramco	**₱173,858**	₱138,027	₱145,099
PNOC	**157**	126	147
Current Payables - Trade			
Saudi Aramco	**-**	(7,200)	(36)
PNOC	**(1)**	(1)	(33)
Current Receivables - Trade			
Saudi Aramco	**-**	-	-
PNOC	**53**	84	55
Current Receivables - Non-Trade			
Saudi Aramco	**2**	2	2
PNOC	**-**	-	-

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 statements 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).

Saudi Aramco is the ultimate parent of AOC, the Company's major stockholder until July 29, 2008 while PNOC was also a major stockholder until December 24, 2008 (see Note 1).

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

	2008	2007	2006
Salaries and other short-term employee benefits	**₱222**	₱251	₱277
Pension costs - defined contribution plan paid	**8**	7	7
Post-employment benefits - defined benefit plan	**70**	39	42
	₱300	₱297	₱326

24. Operating Lease Commitments

Company as Lessee

The Company entered into commercial leases on certain parcels of land for its refinery and certain service stations (see Notes 18 and 23). These leases have an average life 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:

	2008	2007	2006
Within one year	₱506	₱450	₱384
After one year but not more than five years	2,189	2,095	1,728
After five years	2,126	2,241	1,558
	₱4,821	₱4,786	₱3,670

Company as Lessor

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

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

	2008	2007	2006
Within one year	₱247	₱256	₱177
After one year but not more than five years	277	318	202
After five years	93	114	123
	₱617	₱688	₱502

25. Pension Plan

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

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

	2008	2007	2006
Current service cost	₱191	₱198	₱122
Interest cost on benefit obligation	319	274	256
Expected return on plan assets	(392)	(421)	(374)
Net pension costs	₱118	P51	P4
Actual return on plan assets	₱361	₱330	₱687

Actuarial Gain (Loss) Recognized Directly in Equity

	2008	2007	2006
Actuarial gain (loss) for the year (present value of obligation)	₱661	₱218	(₱1,282)
Actuarial gain(loss) for the year (plan assets)	(753)	(92)	313
Actuarial gain due to limit on recognized plan assets	-	-	270
Net actuarial gain (loss) recognized	(₱92)	₱126	(₱699)

Net Pension Asset

	2008	2007	2006
Fair value of plan assets	₱3,832	₱4,360	₱4,217
Defined benefit obligation	3,533	3,851	3,783
Pension asset	299	509	434
Less unrecognized assets due to limit	-	-	-
Net pension asset recognized (see Note 11)	₱299	₱509	₱434

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

	2008	2007	2006
Opening defined benefit obligation	₱3,851	₱3,783	₱2,330
Interest cost	319	274	256
Current service cost	191	198	122
Benefits paid	(167)	(186)	(207)
Actuarial loss (gains) on obligation	(661)	(218)	1,282
Closing defined benefit obligation	₱3,533	₱3,851	₱3,783

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

	2008	2007	2006
Opening fair value of plan assets	₱4,360	₱4,217	₱3,737
Expected return	392	421	374
Benefits paid	(167)	(186)	(207)
Actuarial gain (losses) on plan assets	(753)	(92)	313
Closing fair value of plan assets	₱3,832	₱4,360	₱4,217

The Company will not 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:

	2008	2007	2006
Government securities	56%	47%	57%
Stocks	23%	34%	31%
Real estate	13%	6%	7%
Cash	1%	5%	1%
Others	7%	8%	4%
	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, 2008, 2007 and 2006, the principal assumptions used in determining obligations for the Company's defined benefit pension plan are shown below.

	2008	2007	2006
Discount rate	10%	8%	11%
Expected rate of return on plan assets	6%	9%	10%
Future salary increases	8%	8%	9%

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

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

	2008	2007	2006	2005	2004
Defined benefit obligation	₱3,533	₱3,851	₱3,783	₱2,330	₱1,709
Fair value of plan assets	3,832	4,360	4,217	3,737	3,382
Surplus	₱299	₱509	₱434	₱1,407	₱1,673

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

26. Significant Agreements

Processing License Agreement. Petron has an agreement with Pennzoil-Quaker State International Corporation (Pennzoil) for the exclusive right to manufacture, sell, and distribute in the Philippines certain Pennzoil products until December 31, 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. On October 30, 2008, the manufacturing agreement was extended to June 2009 while the distributorship agreement was extended to September 2009 to allow the Company to consume the remaining Pennzoil raw materials in its possession.

Royalty expense amounting to ₱0.3, ₱1.1 and ₱1.1 in 2008, 2007 and 2006, respectively, are included as part of "Cost of Goods Sold - Others" account in the consolidated statements of income (see Note 17).

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

Sales from the fuel supply contract transactions amounted to ₱15,054, ₱12,583 and ₱10,727 in 2008, 2007 and 2006, respectively.

In the bidding for the Supply & Delivery of Oil-Based Fuel to NPC, IPPs and Small Power Utilities Group (SPUG) Plants/Barges for the period January to December 2009 that was held on January 12, 2009, Petron won to supply a total of 4,303 kilo-liters (KL) of diesel fuel and 19,523 KL of bunker fuel worth ₱149 and ₱513, respectively. All 2008 contracts that were not fully lifted by December 31, 2008 were extended up to June 30, 2009.

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

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

Actual tolling services started in 2008 on which total revenue amounting to ₱7 was recognized in the consolidated statement of income.

27. Earnings (Loss) Per Share

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

	2008	2007	2006
Net income (loss) after tax attributable to equity holders of the parent	(₱3,978)	₱6,377	₱6,011
Weighted average number of shares (see Note 16)	9,375,104,497	9,375,104,497	9,375,104,497
Basic and diluted earnings (loss) per share	(₱0.42)	₱0.68	₱0.64

The Company has no dilutive potential common shares outstanding as of December 31, 2008, 2007 and 2006.

28. Supplemental Disclosure of Cash Flow Information

Changes in operating assets and liabilities:

	2008	2007	2006
Decrease (increase) in assets:			
Trade receivables	₱5,394	(₱1,350)	₱735
Inventories	(2,962)	(3,943)	822
Other current assets	(1,342)	(3,695)	(5,842)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum product importation	(3,926)	5,530	(289)
Accounts payable and accrued expenses	(259)	744	(892)
	(3,095)	(2,714)	(5,466)
Addition (reversal) of allowance for impairment of receivables, inventory decline and/or obsolescence and others	2,444	77	(169)
	(₱651)	(₱2,637)	(₱5,635)

29. Capital Management Objectives, Policies and Procedures

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

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

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

	2008	2007	2006
Total assets	₱111,798	₱104,474	₱87,516
Total liabilities	78,895	66,686	55,263
Total equity	32,903	37,788	32,253
Debt to equity ratio	2.4:1	1.8:1	1.7:1

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

30. Financial Risk Management Objectives and Policies

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

It is the Company's policy not to enter into derivative transactions for speculative purposes. The Company uses hedging instruments to protect its margin on its products from potential price volatility of

crude oil and products. It also enters into short-term forward currency contracts to hedge its currency exposure on crude oil importations.

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

In 2007, the Company availed of the transitional relief to apply PFRS 7, *Financial Instruments: Disclosures*. In 2008, certain disclosures relating to 2007 and 2006, to comply with the requirements of PFRS 7, have been improved or expounded unless impracticable. This is to align all relevant disclosures in all the years presented.

Risk Management Structure

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

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

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

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

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

c. A cross-functional Commodity Risk Management Committee, which oversees crude oil and petroleum product hedging transactions. The Secretariat of this committee is the Commodity Risk Manager, who is responsible for risk management of crude and product imports, as well as product margins.

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

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

f. The Corporate 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 SEC regarding matters involving compliance with the Code of Corporate Governance.

Foreign Exchange Risk

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

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

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

The following is the summation of the Company's foreign currency-denominated financial assets and liabilities as of December 31, 2008, 2007 and 2006.

	2008	2007	2006
	In USD ($)	In USD ($)	In USD ($)
Financial assets	**107**	182	94
Financial liabilities	**(167)**	(357)	(252)
Net foreign exposure	**(60)**	(175)	(158)

The exchange rates used to restate the US dollar-denominated financial assets and liabilities stated above are ₱47.52 (2008), ₱41.28 (2007) and ₱49.03 (2006).

The succeeding table shows the effects of the percentage changes in the Philippine peso to US dollar exchange rate on the Company's income before tax. These percentages have been determined based on the market volatility in exchange rates in the previous 12 months for the years ended December 31, 2008, 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, with effect estimated from beginning of the year.

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

	2008	2007	2006
Increase/decrease in exchange rates	**18.36%**	15.23%	9.65%
Increase/decrease in pretax income	**₱523**	₱1,100	₱748

Interest Rate Risk

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

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

The succeeding table illustrates the sensitivity of income before tax for the year, given the assumed increases/decreases in deposit rates and interest rates for Philippine peso loans and US dollar term loans, all of which at 95% level of confidence, with effect from the beginning of the years 2008, 2007 and 2006. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. The calculations are based on the Company's financial instruments held at each of those statements of financial position dates. All other variables are held constant.

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

	2008		2007		2006	
	PHP	USD	PHP	USD	PHP	USD
Increase/decrease in interest rates for short-term loans/deposits	**39.68%**	**19.94%**	62.61%	32.80%	63.33%	8.90%
Increase/decrease in interest rates for long-term loans	**52.93%**	**49.67%**	71.73%	21.01%	66.42%	6.45%
Increase/decrease in pretax income	**₱1,782**	**₱26**	₱1,159	₱5	₱886	₱7

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

	2008	2007	2006
Cash in bank and cash equivalents (see Note 4)	**₱8,291**	₱6,870	₱9,781
Short-term loans (see Note 12)	**₱53,979**	₱33,784	₱28,135
Long-term loans (see Note 14)			
LANDBANK	**₱2,000**	₱2,000	₱2,000
NORD	**-**	US$62	US$90
Citibank	**-**	-	₱308

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

Credit Risk

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

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

	2008	2007	2006
Cash in bank and cash equivalents (see Note 4)	**₱8,291**	₱6,870	₱9,781
Receivables (see Note 7)	**16,875**	17,869	15,629
Derivative assets (see Note 11)	**55**	100	58
Total	**₱25,221**	₱24,839	₱25,468

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

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

Collaterals. To the extent practicable, the Company also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (see Note 7). Among the collaterals held are real estate mortgages, bank guarantees, letters of credit and cash bonds valued at P2,600 and P2,300 as of December 31, 2008 and 2007, respectively. These securities may only be called on or applied upon default of customers.

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

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

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

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

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

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

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

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

	Trade Accounts Receivables per Class			
	Class A	Class B	Class C	Total
Dec. 31, 2008				
Reseller	**(₱214)**	**₱319**	**₱1**	**₱106**
Lubes	**128**	**41**	**31**	**200**
Gasul	**171**	**155**	**259**	**585**
Industrial	**2,593**	**2,631**	**955**	**6,179**
Others	**(126)**	**315**	**143**	**332**
Total	**₱2,552**	**₱3,461**	**₱1,389**	**₱7,402**
Dec. 31, 2007				
Reseller	(₱79)	₱384	₱30	₱335
Lubes	141	44	41	226
Gasul	211	175	329	715
Industrial	3,429	3,979	1,330	8,738
Others	2,305	272	224	2,801
Total	₱6,007	₱4,854	₱1,954	₱12,815

Liquidity Risk

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

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

Below are the contractual maturities of Company's financial liabilities as of December 31, 2008, 2007 and 2006. These amounts reflect the gross cash flows that may differ from the carrying values of the liabilities at the statement of financial position dates.

	2008				
	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	₱53,482	₱923	₱-	₱-	₱54,405
Liabilities for crude oil and petroleum product importation	8,907	-	-	-	8,907
Accounts payable and accrued expenses (see Note 13)	4,147	14	-	-	4,161
Current portion of long-term debt	525	518	1,022	-	2,065
Total current financial liabilities	67,061	1,455	1,022	-	69,538
Noncurrent financial liabilities:					
Cash bonds (See Note 15)	-	-	-	205	205
Long-term debt	-	-	-	10,111	10,111
Total noncurrent financial liabilities	-	-	-	10,316	10,316
Total financial liabilities	₱67,061	₱1,455	₱1,022	₱10,316	₱79,854
	2007				
Current financial liabilities:					
Short-term loans	₱33,599	₱360	₱-	₱-	₱33,959
Liabilities for crude oil petroleum product importation	12,873	-	-	-	12,873
Accounts payable and accrued expenses (see Note 13)	4,103	-	-	-	4,103
Current portion of long-term debt	102	802	1,385	-	2,289
Total current financial liabilities	50,677	1,162	1,385	-	53,224
Noncurrent financial liabilities:					
Cash bonds (see Note 15)	-	-	-	173	173
Long-term debt	-	-	-	13,105	13,105
Total noncurrent financial liabilities	-	-	-	13,278	13,278
Total financial liabilities	₱50,677	₱1,162	₱1,385	₱13,278	₱66,502
	2006				
Current financial liabilities:					
Short-term loans	₱28,115	₱-	₱-	₱-	₱28,115
Liabilities for crude oil petroleum product importation	7,541	-	-	-	7,541
Accounts payable and accrued expenses (see Note 13)	3,292	-	-	-	3,292
Current portion of long-term debt	287	771	1,326	-	2,384
Total current financial liabilities	39,235	771	1,326	-	41,332
Noncurrent financial liabilities:					
Cash bonds (see Note 15)	-	-	-	141	141
Long-term debt	-	-	-	14,214	14,214
Total noncurrent financial liabilities	-	-	-	14,355	14,355
Total financial liabilities	₱39,235	₱771	₱1,326	₱14,355	₱55,687

Commodity Price Risk

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

Other Market Price Risk

The Company's market price risk arises from its investments carried at fair value (FVPL and AFS financial assets). 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 – Commodity Risk Management
In the November 7, 2008 BOD meeting, the following hedge authorities were granted in order to guard against risks arising from volatility of crude and product prices:

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

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

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

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

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

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

In December 2008, IFO-Dubai crack swaps for the first quarter of 2009 with total notional quantity of 575 MB were concluded from various counterparties namely J. Aron, Standard Chartered, Morgan Stanley and BP Singapore. Average fixed price per barrel were minus US$8.81, US$8.87 and US$9.09 for January, February and March 2009 hedges, respectively. As of December 31, 2008, estimated net payout for these outstanding IFO-Dubai Crack Swaps totaled ₱42.5.

- *Inventory Loss Protection (SELL).* This is intended to address inventory losses brought about by abrupt and significant downward price swings. Dubai was used as a proxy hedge for the products since prices of crude and products generally move in the same direction and that not all products can be hedged. Petron was the Dubai fixed price seller. This authority was utilized more during the latter part of 2008 as prices continued to drop.

  Total notional quantity of outstanding Sell swaps were at 3 MMB, 1.45MB pertained to December 2008 hedges and 1.55MB pertained to January 2009 hedges. Average strike price was at US$48.63 per barrel and were contracted from BNP Paribas, BP Singapore, Citibank, J.P Morgan, MERM and Standard Chartered. As of December 31, 2008, estimated net receipts from these transactions totaled US$11.7 or P554.1 translated using year-end closing rate.

  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 P264.

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

  The Board also granted authority to hedge up to a maximum of 100% of crude and product imports. A yearly limit of US$6 for option premiums was also approved.

  The Board likewise created a Board Executive Committee that is authorized to address urgent issues brought about by market conditions, as well as consider, modify or approve for immediate implementation guidelines for commodity hedging.

  In December 2008, Petron executed 150MB Buy Swap with J.P. Morgan at an average strike price of US$46.13 per barrel for January 2009 hedges. Estimated net receipts from these outstanding transactions amounted to P2.6.

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

As of December 31, 2008, Petron has outstanding currency forwards of US$80.5 at an average spot rate and forward rate of P47.28 and P47.46 per US dollar. The net fair value gain on these outstanding transactions amounted to P18.60. There were no outstanding currency forward contracts as of December 31, 2007. On the other hand, as of December 31, 2006, the Company had outstanding currency forward contracts with an aggregate notional amount of US$109 and weighted average contracted forward rate of P49.70 to US$1.00. The net fair value loss on these currency forward contracts as of December 31, 2006 amounted to P64.

Meanwhile, the 25MB Three – Way Option was executed in October 2008 for December 2008 but will be settled in January 2009. Receipt from this transaction amounted to US$0.125 or P5.9 using the year-end closing exchange rate of P47.52 per dollar with the following strike prices per barrel: sell put of US$53.00, buy put of US$58.00 and sell call of US$63.00.

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

Fair Value Changes on Derivatives
The net movements in fair value changes of all derivative transactions in 2008, 2007 and 2006 are as follows:

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

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

	2008		2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):						
Cash and cash equivalents (see Note 4)	**₱12,827**	**₱12,827**	₱9,732	₱9,732	₱11,735	₱11,735
Receivables (see Note 7)	**16,875**	**16,875**	17,869	17,869	15,629	15,629
Loans and receivable	**29,702**	**29,702**	27,601	27,601	27,364	27,364
AFS investments (see Note 6)	**682**	**682**	632	632	632	632
Financial assets at FVPL (see Note 5)	**161**	**161**	229	229	180	180
Derivative assets (see Note 11)	**55**	**55**	100	100	58	58
FA at FVPL	**216**	**216**	329	329	238	238
Total financial assets	**₱30,600**	**₱30,600**	₱28,562	₱28,562	₱28,234	₱28,234
Financial Liabilities (FL):						
Short-term loans (see Note 12)	**₱53,979**	**₱53,979**	₱33,784	₱33,784	₱28,135	₱28,135
Liabilities for crude oil and petroleum product importation	**8,907**	**8,907**	12,873	12,873	7,541	7,541
Accounts payable and accrued expenses (see Note 13)	**4,146**	**4,146**	4,103	4,103	3,292	3,292
Cash bonds (see Note 15)	**205**	**192**	173	163	141	135
Long-term debt including current portion (see Note 14)	**10,251**	**9,075**	12,780	11,163	12,912	12,973
Cylinder deposits (see Note 15)	**201**	**201**	243	243	206	206
Other noncurrent liabilities (see Note 15)	**54**	**54**	37	37	42	42
FL at amortized cost	**77,743**	**76,554**	63,993	62,366	52,269	52,324
Derivative liabilities (see Note 13) FL at FVPL	**-**	**-**	2	2	64	64
Total financial liabilities	**₱77,743**	**₱76,554**	₱63,995	₱62,368	₱52,333	₱52,388

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

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

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

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

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

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

f. Exemption from contractor's tax.

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

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

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

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

c. Simplification of custom procedures;

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

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

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

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

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

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

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

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

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

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

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

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

g. Exemption from contractor's tax.

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

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

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

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

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

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

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

g. Exemption from contractor's tax.

Petron has availed of ITH credits amounting to P171 in 2008, P163 in 2007 and P736 in 2006 (see Note 22). Yearly certificates of entitlement have been timely obtained by the Company to support its ITH credits.

33. Segment Information

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

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

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

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

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

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

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments for the years ended December 31, 2008, 2007 and 2006. Segment assets and liabilities exclude deferred tax assets and liabilities.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Year Ended December 31, 2008						
Revenue:						
External sales	**₱263,393**	**₱-**	**₱-**	**₱4,283**	**₱-**	**₱267,676**
Inter-segment sales	**3,219**	**151**	**191**	**-**	**(3,561)**	**-**
Segment results	**(2,562)**	**124**	**150**	**119**	**317**	**(1,852)**
Net income (loss)	**(4,347)**	**155**	**115**	**92**	**65**	**(3,920)**
Assets and liabilities:						
Segment assets	**107,800**	**2,036**	**2,619**	**1,507**	**(3,049)**	**110,913**
Segment liabilities	**78,042**	**535**	**1,792**	**881**	**(2,363)**	**78,887**
Other segment information:						
Property, plant and equipment	**33,149**	**1**	**-**	**704**	**2,574**	**36,428**
Depreciation and amortization	**3,169**	**-**	**-**	**73**	**-**	**3,242**
Year Ended December 31, 2007						
Revenue:						
External sales	₱207,621	₱-	₱-	₱2,899	₱-	₱210,520
Inter-segment sales	2,200	158	182	-	(2,540)	-
Segment results	9,227	134	161	86	300	9,908
Net income	6,113	177	94	82	(70)	6,396
Assets and liabilities:						
Segment assets	102,241	1,512	2,619	1,073	(2,972)	104,473
Segment liabilities	64,962	262	1,942	534	(2,282)	65,418
Other segment information:						
Property, plant and equipment	30,912	1	1	597	2,611	34,122
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

Intersegment sales transactions amounted to P3,561, P2,540 and P2,057 for the year ended December 31, 2008, 2007 and 2006, respectively, which is less than 2% of the total revenues for the years presented.

The following tables present additional information on the petroleum business segment of the Company for the years ended December 31, 2008, 2007 and 2006:

	Reseller	Lube	Gasul	Industrial	Others	Total
Year Ended December 31, 2008						
Revenue	**₱102,980**	**₱2,086**	**₱14,993**	**₱96,844**	**₱49,708**	**₱266,611**
Property, plant and equipment	**4,138**	**489**	**255**	**46**	**28,221**	**33,149**
Capital expenditures	**288**	**3**	**58**	**5**	**5,722**	**6,076**
Year Ended December 31, 2007						
Revenue	₱87,049	₱1,801	₱11,518	₱71,736	₱37,717	₱209,821
Property, plant and equipment	4,347	521	269	49	25,726	30,912
Capital expenditures	349	2	74	2	14,758	15,185
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

Geographical Segments

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 2008, 2007 and 2006.

The following tables present revenue information regarding the geographical segments of the Company for the years ended December 31, 2008, 2007 and 2006.

	Petroleum	Insurance	Leasing	Elimination/ Marketing	Others	Total
Year Ended December 31, 2008						
Revenue:						
Local	**₱229,769**	**₱94**	**₱191**	**₱4,283**	**(₱3,561)**	**₱230,776**
Export/International	**36,843**	**57**	**-**	**-**	**-**	**36,900**
Year Ended December 31, 2007						
Revenue:						
Local	₱177,949	₱84	₱182	₱2,899	(₱2,540)	₱178,574
Export/International	31,872	74	-	-	-	31,946
Year Ended December 31, 2006						
Revenue:						
Local	₱176,864	₱63	P170	₱2,331	(₱2,057)	₱177,371
Export/International	34,308	47	-	-	-	34,355

34. Events after the Consolidated Statement of Financial Position Date

In the February 27, 2009 BOD meeting, the Company's BOD approved a resolution to reverse P8,428 from the current balance of appropriated retained earnings (see Note 16).

Also in the same meeting, the BOD resolved to amend the Company's Articles of Incorporation with regard to the increase in capital stock from P10,000 to P25,000 through the issuance of preferred shares and change of the Company's primary purpose to include generation and sale of electric power (see Note 1).

35. Other Matters

a. Petron has unused letters of credit totaling approximately P70, P27 and P257 as of end of 2008, 2007 and 2006, respectively.

b. Tax Credit Certificate Cases

In 1998, the Company contested before the Court of Tax Appeals (CTA) the collection by the Bureau of Internal Revenue (BIR) of deficiency excise taxes arising from the Company's acceptance and use of Tax Credit Certificates (TCCs) worth P659 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, BIR issued an assessment against the Company for deficiency excise taxes of P284 plus interest and charges for the years 1995 to 1997, as a result of the cancellation by the Department of Finance (DOF) Center ExCom of Tax Debit Memos (TDMs), the related TCCs and their assignments. The Company contested on the grounds that the assessment has no factual and legal bases and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000. On August 23, 2006, the Second Division of the CTA rendered its Decision denying the Company's petition and ordered it to pay the BIR P580 representing deficiency excise taxes for 1995 to 1997 plus 20% interest per annum from December 4, 1999. The Company's motion for reconsideration was denied on November 23, 2006. The Company appealed the Division's Decision to the CTA En Banc. On October 30, 2007, the CTA En Banc dismissed the Company's appeal, with two of four justices dissenting. The Company filed its appeal on November 21, 2007 with the Supreme Court. On December 21, 2007, in the substantially identical case of Pilipinas Shell, the SC decided to nullify the assessment of the deficiency excise taxes and declared as valid Pilipinas Shell's use of Tax Credit Certificates for payment of its tax liabilities. On November 7, 2008, the Supreme Court gave due course to the Company's appeal and directed the Company to file its Memorandum.

In May 2002, the BIR issued a collection letter for deficiency taxes of P254 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. The Company was ordered to pay the respondent the reduced amount of P601 representing the Company's deficiency excise taxes for the taxable years 1995 to 1998. In addition, the Company was ordered to pay the BIR 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. The Company's Motion for Reconsideration was denied on August 14, 2007. The Company appealed to the CTA En Banc. On December 3, 2008, the CTA En Banc promulgated a decision reversing the unfavorable decision of the CTA 2nd Division.

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

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 in the case of Pilipinas Shell and in the Decision of the CTA En Banc on December 3, 2008.

c. Pandacan Terminal Operations

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

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 the Company a seven-year grace period. The passage of Ordinance No. 8119 was thought to effectively repeal Manila Ordinance No. 8027. However, on March 7, 2007, the 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, the Company, together with Shell and Chevron, filed an Urgent Motion for Leave to Intervene and Urgent Motion to Admit Motion for Reconsideration of the decision dated March 7, 2007, citing that the 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, rendering the SC's decision and the enforcement of Ordinance No. 8027 improper. Further, the Company, Shell, and Chevron noted the ill-effects of the sudden closure of the Pandacan Terminals on the entire country.

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

On May 13, 2008, the three oil companies submitted their Comprehensive Relocation Plans in compliance with the February 13 Resolution of the SC. There have been no additional updates on this case since May 13, 2008 made known to the Company.

d. 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.

On April 16, 2008, the SC has promulgated a Decision in favor of Petron and against the Municipality of Navotas. The assessment for deficiency taxes amounting to P10 (business tax on the sale of diesel from 1997 to 2001) was ordered cancelled for being beyond the authority of the municipality to impose the tax and therefore ruled to be void. The ruling was based on Sec. 133 (h) of the Local Government Code which precludes local government units from imposing any kind of taxes, fees or charges on the sale of petroleum products.

On October 3, 2008, the Company received an Entry of Judgment declaring the Decision dated April 16, 2008 as final and executory on August 12, 2008. This case is now closed and terminated.

e. 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 lies about 640 meters beneath the sea, at approximately 13 nautical miles southwest of Guimaras.

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

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

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

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

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

The Company has been working closely with the provincial government, Department of Welfare and Social Development (DSWD), Department of Agriculture (DA), Technical Education and Skills Development Authority (TESDA), the Philippine Business for Social Progress (PBSP), in developing livelihood programs for the local community.

On November 27, 2006, the Company held a scientific conference in cooperation with the University of the Philippines –Visayas, the National Disaster Coordinating Council (NDCC), the World Wildlife Fund (WWF) and the Guimaras Provincial Government with the objective of developing an integrated assessment and protocol for the rehabilitation of the province. On top of providing alternative livelihood for affected Guimarasnons, the company has established programs and facilities aimed at helping improve basic education in the province. Among the interventions along this line were the construction of the Petron School in Nueva Valencia and the establishment of the 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 contracted a sub-sea systems technology provider (Sonsub) to recover the oil from the sunken vessel. The recovery vessel AME Allied Shield arrived at Bacolod Real Estate Development Corporation (BREDCO) Pier in Bacolod City last March 10, 2007. After unloading the ISO-certified tanks and hoses, the vessel proceeded to site on March 11, 2007. Oil recovery operation was technically completed on April 1, 2007. A total of 9,000 liters of oil was recovered.

Representatives from the IOPC met with the claimants from various affected areas of Guimaras to give an orientation on the requirements of the claim as well as the documents required to be submitted in support of the claim. The Company has filed a total of P 220 against the IOPC as of September 30, 2008. A total of P129 has been paid to the Company. The recent installment was collected last June 13, 2008. As of September 30, 2008, total outstanding claims from IOPC amounted to P91.

Total expenses incurred were P15 in 2007 and P122 in 2006, net of P105 reimbursements in 2006 (see Note 18). As of December 31, 2008, expenses incurred were immaterial.

f. Bataan Real Property Tax Cases

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

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

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

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

A motion to dismiss filed by the 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. On February 28, 2008, the Company's counsel was served notice of the Resolution of the SC directing the Company to file its Comment on the petition of the Provincial Treasurer of Bataan questioning the RTC's issuance of a writ of injunction against the holding of a public auction for alleged delinquency in payment of real property taxes. The Company's comment was filed on March 7, 2008.

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

On June 27, 2008, the SC dismissed the petition filed by the Treasurer on the Order granting the writ of injunction. All five Justices concurred that the Treasurer's appeal was procedurally defective and/or was filed out of time. The Court also faulted the petitioner for disregarding the hierarchy of courts when it went straight to the SC without going thru the Court of Appeals. More importantly, the Court ruled that the issues raised by the Company against the assessment should be resolved before any auction sale is conducted; that the auction sale will have serious repercussions on the operations of the Company; and that a surety bond may be filed in lieu of payment of the taxes under protest to stop collection. The Treasurer filed its Motion for Reconsideration of the Decision. The League of Provinces of the Philippines (LPP) also filed its Motion for Reconsideration-in-Intervention dated August 20, 2008.

On September 8, 2008, the SC issued a Resolution denying with finality the Motion for Reconsiderations of both the Treasurer and the LPP as well as the Motion to Intervene filed by the LPP. There have been no additional changes made known to the Company since September 8, 2008.

List of Banks and Financial Institutions

ABN AMRO Bank
Allied Banking Corporation
Australia and New Zealand Banking Group, Ltd.
Ayala Life Assurance
Banco de Oro
Bank of Butterfield
Bank of the Philippine Islands
BDO Capital Investment Corp.
BNP Paribas
BPI Capital Corporation
Calyon Corporate and Investment Bank
China Banking Corporation
Chinatrust Commercial Bank Corporation
Citibank, N. A.
Deutsche Bank
Development Bank of the Philippines
DZ Bank AG Deutsche Zentral-Genossenschaftsbank
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.
Philippine National Bank
Pioneer Life, Inc.
Rizal Commercial Banking Corporation
Robinson's Savings Bank
SB Capital Investment Corporation
Security Bank Corporation
Société Généralé
Standard Chartered Bank
Sumitomo Mitsui Banking Corp.
The Bank of Bermuda, Ltd.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Hongkong and Shanghai Banking Corporation, Ltd.
Union Bank of the Philippines
United Coconut Planters Bank

Board of Directors

from Left to Right:
Emilia T. Boncodin, Roberto V. Ongpin, Nicasio I. Alcantara, Eric O. Recto, Ramon S. Ang, Eduardo M. Cojuangco, Jr., Ron W. Haddock, Estelito P. Mendoza, Bernardino R. Abes, Angelico T. Salud

EMILIA T. BONCODIN, Filipino, 54 years old, is an Independent Director since April 2006. She is the Chairman of the Audit Committee. 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 January 2001 to July 2005 and in February to June 1998.

ROBERTO V. ONGPIN, Filipino, 72 yrs. old, is a non-executive Director of the Company since July 31, 2008. He is a member of the Board Executive and Compensation Committees. He is currently the Chairman of the following corporations: Philweb Corporation, ISM Communications Corporation, Eastern Telecommunications Philippines, Inc.; Developing Countries Investment Corporation, La Flor de la Isabela, Inc.; and Alphaland Corporation.

NICASIO I. ALCANTARA, Filipino, 66 years old, non-executive Director since January 8, 2009. He was formerly the Chairman and Chief Executive Officer of Petron Corporation. Prior to joining Petron, he was the Chairman and/or President of various corporations of the Alcantara Group of Companies.

ERIC O. RECTO, Filipino, 45 years old, is the President/ Executive Director of the Company since October 7, 2008. He became a director of Petron on July 31, 2008. He is a member of the Board Executive Committee and the Nomination and Compensation Committees. He is currently, the Chief Executive Officer of Eastern Telecommunications Philippines, Inc. (ETPI) and Vice Chairman & President of ISM Communications Corporation, ETPI's parent company. He is also Vice Chairman of Philweb Corporation and Alphaland Corporation.

RAMON S. ANG, Filipino, 55 years old, is the Chairman/ Chief Executive Officer and Executive Director of Petron since January 8, 2009. He is also the Chairman of the Board Executive Committee and Compensation Committee. He is currently the

Vice Chairman of San Miguel Corporation (SMC) and President & Chief Operating Officer of SMC, Chairman of Liberty Telecom Holdings, Inc. and Vice Chairman and Director of Manila Electric Company. He also holds executive and directorship positions in various SMC subsidiaries.

EDUARDO M. COJUANGCO, JR., Filipino, 73, is a non-executive Director of Petron since January 8, 2009. He is the Chairman and Chief Executive Officer of San Miguel Corporation, and Ginebra San Miguel, Inc. He is also the Chairman of ECJ & Sons Agricultural Enterprises, Inc.; Eduardo Cojuangco Jr. Foundation, Inc.; and San Miguel Purefoods Company, Inc.

RON W. HADDOCK, 68 years old, American, is a non-executive Director since December 2, 2008. He is a member of the Audit Committee and an alternate member of the Executive Committee. He sits as the Chairman of the Board of Ashmore Energy International, a position he has occupied since September 2006.

ESTELITO P. MENDOZA, Filipino, 77 years old, is a non-executive Director since January 8, 2009. He is a member of the Nomination, Compensation and Audit Committees. He is currently the Chairman of Prestige Travel, Inc. He holds directorships in San Miguel Corporation, Manila Electric Company, Philippine Airlines, Inc.; and is head of E. P. Mendoza Law Office.

BERNARDINO R. ABES, Filipino, 78 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.

ANGELICO T. SALUD, Filipino, 46 years old, Independent Director since January 8, 2009. He is the Chairman of the Nomination Committee and a member of the Audit and Compensation Committees. He is currently a Legal Consultant at the Office of the Mayor of Makati City.

Management Committee

Seated from left to right:
Eric O. Recto, Ramon S. Ang,
Ma. Concepcion F. de Claro, Felimon E. Antiporta

Standing from left to right:
Alfred A. Trio, Emmanuel E. Eraña, Jose K. Campos Jr.,
Susan Y. Yu, Jose Jesus G. Laurel, Lubin B. Nepomuceno,
Ma. Cristina M. Menorca, Mario S. Lucas

RAMON S. ANG
Chairman/CEO

ERIC O. RECTO
President

EMMANUEL E. ERAÑA
Chief Finance Officer/Head-Finance and Corporate Planning

LUBIN B. NEPOMUCENO
General Manager/Head – Supply/ Operations and Refinery

FELIMON E. ANTIPORTA
Vice President for Supply and Operations

JOSE K. CAMPOS, JR.
Vice President for Marketing

MA. CONCEPCION F. DE CLARO
Vice President for Corporate Planning & Services

JOSE JESUS G. LAUREL
Vice President for Legal and External Affairs
and Corporate Secretary

ALFRED A. TRIO
Vice President for Refinery

SUSAN Y. YU
Vice President for Procurement

MA. CRISTINA M. MENORCA
Controller

MARIO S. LUCAS
Treasurer

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

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 E10 Premium
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- I

HOUSEHOLD FUELS
Gasul
Gaas
Fiesta Gas

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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E mail: contactus@petron.com

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:

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Public Affairs Department
39/F Petron MegaPlaza
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Or with our stock transfer agent:

Stock Transfer Services, Inc.
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Makati City 1200 Philippines
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Fax No. (632) 898 7597

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

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Annual reports, quarterly reports and other information on Petron can be downloaded from our website:
www.petron.com

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