

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2007
2. Commission identification number 31171 3. BIR Tax Identification No. 320-000-168-801
4. Exact name of registrant as specified in its charter PETRON CORPORATION
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code:  (SEC Use Only)
- .....

7. Address of registrant's principal office Postal Code  
Petron MegaPlaza, 358 Sen. Gil Puyat Ave., Makati City 1200

8. Registrant's telephone number, including area code  
(0632) 886-3888

9. Former name, former address and former fiscal year, if changed since last report  
N/A

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<u>Common Stock</u>	<u>9,375,104,497 Shares</u>

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes [X] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange Common Stock

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports)

Yes  No

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

Yes  No

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Unaudited



**PETRON CORPORATION AND SUBSIDIARIES**  
**STATEMENT OF INCOME**  
For the Nine-Month Periods Ended September 30, 2007 and 2006  
(Amounts in Millions of Pesos, Except Per Share Amounts)

	<u>July to September</u>		<u>January to September</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
SALES	53,550	57,229	152,339	164,202
COST OF GOODS SOLD	<u>(49,835)</u>	<u>(54,061)</u>	<u>(141,569)</u>	<u>(153,553)</u>
GROSS PROFIT	3,715	3,168	10,770	10,649
SELLING AND ADMINISTRATIVE EXPENSES	(1,282)	(932)	(3,827)	(3,708)
INTEREST INCOME	53	111	239	223
INTEREST EXPENSE	(677)	(872)	(1,892)	(2,109)
OTHERS	<u>285</u>	<u>94</u>	<u>747</u>	<u>22</u>
INCOME BEFORE INCOME TAX	2,094	1,569	6,037	5,077
PROVISION FOR INCOME TAX	<u>(692)</u>	<u>(263)</u>	<u>(1,933)</u>	<u>(1,080)</u>
NET INCOME	<u><u>1,402</u></u>	<u><u>1,306</u></u>	<u><u>4,104</u></u>	<u><u>3,997</u></u>
Attributable to:				
Equity holders of the parent	1,399	1,307	4,098	3,991
Minority interest	<u>3</u>	<u>(1)</u>	<u>6</u>	<u>6</u>
	<u><u>1,402</u></u>	<u><u>1,306</u></u>	<u><u>4,104</u></u>	<u><u>3,997</u></u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>	<u><u>0.15</u></u>	<u><u>0.14</u></u>	<u><u>0.44</u></u>	<u><u>0.43</u></u>

Certified by:

MA. CONCEPCION F. DE CLARO  
Controller



PETRON CORPORATION & SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Amounts in Millions of Pesos)

	Unaudited	Audited
	As at	
	9/30/2007	12/31/2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	11,690	11,735
Financial assets at fair value through profit or loss	242	180
Available-for-sale investments	118	103
Receivables	16,886	15,629
Inventories	29,850	26,289
Other current assets	7,201	7,054
Total Current Assets	<u>65,987</u>	<u>60,990</u>
<b>Non-Current Assets</b>		
Property, plant and equipment	31,642	25,153
Investment properties	211	222
Available-for-sale investments	535	529
Other noncurrent assets	639	622
Total Noncurrent Assets	<u>33,027</u>	<u>26,526</u>
	<u>99,014</u>	<u>87,516</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Short-term loans	24,351	28,135
Liabilities for crude oil and petroleum product importation	17,782	7,541
Accounts payable and accrued expenses	4,649	3,731
Current portion of long-term debt	1,527	1,633
Income tax payable	477	452
Total Current Liabilities	<u>48,786</u>	<u>41,492</u>
<b>Non-Current Liabilities</b>		
Long-term debt - net of current portion	12,260	11,279
Deferred income tax liabilities	1,396	1,443
Other noncurrent liabilities	1,156	1,049
Total Noncurrent Liabilities	<u>14,812</u>	<u>13,771</u>
<b>Stockholders' Equity Attributable to Equity Holders of the Parent</b>		
Capital stock	9,375	9,375
Retained earnings	26,414	23,253
Other reserves	(494)	(490)
Stockholders' Equity Attributable to Equity Holders of the Parent	<u>35,295</u>	<u>32,138</u>
<b>Minority Interest</b>		
Total Stockholders' Equity	<u>121</u>	<u>115</u>
	<u>35,416</u>	<u>32,253</u>
	<u>99,014</u>	<u>87,516</u>

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**PETRON CORPORATION & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES**  
**IN STOCKHOLDERS' EQUITY**  
For the Nine Month Periods September 30, 2007 and 2006  
(Amounts in Millions of Pesos)

Unaudited

	<u>January to September</u>	
	<u>2007</u>	<u>2006</u>
<b>COMMON STOCK</b>	<u>9,375</u>	<u>9,375</u>
<b>RETAINED EARNINGS</b>		
Balance at beginning of year	23,253	18,004
Appropriated for capital projects	-	-
Net income	4,098	3,991
Cash dividends declared	(937)	(938)
Effect of change in accounting for:		
Financial instruments: recognition and measurement	-	1
Subsidiaries	-	-
Balance at end of period	<u>26,414</u>	<u>21,058</u>
<b>OTHER RESERVES</b>	<u>(494)</u>	<u>125</u>
<b>ACCUMULATED TRANSLATION ADJUSTMENT</b>		
Balance at beginning of year	-	-
Foreign currency translation adjustments	-	-
Balance at end of period	<u>-</u>	<u>-</u>
<b>MINORITY INTEREST</b>	<u>121</u>	<u>114</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u><u>35,416</u></u>	<u><u>30,672</u></u>

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PETRON CORPORATION & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Amounts in Millions of Pesos)

Unaudited

	January to September	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	6,037	5,076
Adjustments for:		
Depreciation and amortization	1,858	1,864
Interest expense	1,875	2,311
Interest income	(239)	(223)
Net unrealized foreign exchange loss (gain)	(514)	(283)
Others	(64)	(35)
Operating income before working capital changes	8,953	8,710
Changes in operating assets and liabilities		
Decrease (increase) in assets:		
Receivables	(159)	(2,655)
Inventories	(3,561)	(6,096)
Other current assets	(237)	(2,882)
Increase (decrease) in liabilities:		
Liabilities for crude oil and petroleum product importation	10,843	5,944
Accounts payable and accrued expenses	727	(70)
Provisions for doubtful accounts, inventory obsolescence and others	88	223
Interest paid	(1,955)	(2,137)
Income taxes paid	(1,956)	(477)
Interest received	237	224
<b>Net cash provided by (used in) operating activities</b>	<b>12,980</b>	<b>784</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to:		
Property, plant and equipment	(8,337)	(2,929)
Investment properties	1	-
Decrease (increase) in:		
Other receivables	(1,128)	1,017
Other noncurrent assets	(18)	(161)
Reductions from (additions to):		
Financial assets at fair value through profit or loss	-	-
Available-for-sale investments	(20)	(38)
Investments	-	-
<b>Net cash provided by (used in) investing activities</b>	<b>(9,502)</b>	<b>(2,111)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availment of loans	44,261	128,147
Payments of:		
Loans	(46,925)	(122,030)
Cash dividends	(923)	(922)
Others	80	35
<b>Net cash provided by (used in) financing activities</b>	<b>(3,507)</b>	<b>5,230</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(16)</b>	<b>(14)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(45)</b>	<b>3,889</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>11,735</b>	<b>4,071</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>11,690</b>	<b>7,960</b>

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Controller



**PETRON CORPORATION**  
**SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. General**

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 is dedicated and passionate about its vision to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

Petron operates a refinery in Limay, Bataan, with a rated capacity of 180,000 barrels a day. Petron's International Standards Organization (ISO)-14001 - certified refinery processes crude oil into a full range of petroleum products including LPG, gasoline, diesel, jet fuel, kerosene, industrial fuel oil, solvents, asphalts, and mixed xylene. From the refinery, Petron moves its products mainly by sea to Petron's 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. Petron also supplies jet fuel at key airports to international and domestic carriers.

Through more than 1,200 service stations, the largest in the country, 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.

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

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

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

Petron is a public company under Section 17.2 of the Securities Regulation Code. The Philippine National Oil Company (PNOC) and the Aramco Overseas Company B.V. each owns a 40% share of equity. The remaining 20% is held by close to 190,000 stockholders.



The registered office address of Petron and its Philippine-based subsidiaries is Petron MegaPlaza, 358 Sen. Gil Puyat Avenue, Makati City.

The consolidated financial statements were approved for issuance by the Board of Directors on November 9, 2007.

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## **2. Accounting policies**

The accompanying consolidated interim financial statements have been prepared in conformity with Philippine Financial Reporting Standards (PFRS). It has been measured on the historical cost basis, except for financial assets at fair value through profit or loss (FPVL), available-for-sale (AFS) investments and derivative financial instruments, which are at fair value.

The same accounting policies and methods of computation as mentioned in the audited financial statements for the year 2006 were followed in the preparation of these interim financial statements.

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## **3. Basic earnings per share**

Earnings per share for the nine-month period ended September 30, 2007 amounted to ₱ 0.44. Net income of ₱ 4,098 million for the interim period was divided by the weighted average number of shares outstanding of 9,375 million as of the close of the third quarter of 2007.

Earnings per share for the nine-month period ended September 30, 2006 amounted to ₱ 0.43. Net income of ₱ 3,991 million for the interim period was divided by the weighted average number of shares outstanding of 9,375 million as of the close of the third quarter of 2006.

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## **4. Fuel Supply Contract**

The Company entered into various fuel supply contracts with NPC. Under the agreement, the Company supplies the bunker fuel and diesel fuel oil requirements to selected NPC plants and NPC-supplied Independent Power Plants.

In the bidding held last August 22, 2007 for NPC fuel requirements from August to December 2007, Petron won a total of 125,548 KL of diesel fuel worth ₱3,946 million and 474,293 KL of bunker fuel worth ₱9,846 million.

**5. Explanatory comments about the seasonality or cyclical nature of interim operations**

Seasonality or cyclical nature of interim operations is not applicable to the Registrant's type of business because the demand for petroleum products remains fairly stable throughout the year.

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**6. The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence**

There are no assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

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**7. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period**

There are no changes in estimates of amounts in the third quarter of 2007.

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**8. Issuances, repurchases, and repayments of debt and equity securities**

There are no issuances, repurchases, and repayments of debt and equity securities during the third quarter of 2007.

9. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting

**Segment Information**

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

Petron's major sources of revenues are as follows:

- a. Sales from petroleum and other related products which include gasoline, diesel, and kerosene offered to motorists and public transport operators through its service station network around the country;
- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance;
- c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures;
- d. Sales on wholesale or retail, and operation of service stations, retail outlets, restaurants, convenience stores and the like; and,
- e. Export sales of various petroleum products to other Asian countries such as Cambodia, Korea, China and Australia.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of September 30, 2007 and December 31, 2006 and for the nine-month periods ended September 30, 2007 and 2006. Segment assets and liabilities exclude income tax assets and liabilities.

(Amounts in millions)

	<b>Petroleum</b>	<b>Insurance</b>	<b>Leasing</b>	<b>Marketing</b>	<b>Elimination</b>	<b>Total</b>
<u>Period Ended Sept. 30, 2007</u>						
Revenue						
External Sales	<b>₱150,245</b>			<b>₱ 2,094</b>	<b>₱-</b>	<b>₱152,339</b>
Inter-segment Sales	<b>1,581</b>	<b>₱411</b>	<b>₱219</b>		<b>(2,211)</b>	<b>-</b>
Segment results	<b>6,492</b>	<b>399</b>	<b>202</b>	<b>73</b>	<b>(223)</b>	<b>6,943</b>
Net income	<b>3,910</b>	<b>133</b>	<b>27</b>	<b>68</b>	<b>(34)</b>	<b>4,104</b>
<u>As of Sept. 30, 2007</u>						
Assets and liabilities						
Segment assets	<b>96,716</b>	<b>1,617</b>	<b>2,632</b>	<b>1,024</b>	<b>(2,975)</b>	<b>99,014</b>
Segment liabilities	<b>61,621</b>	<b>349</b>	<b>2,022</b>	<b>499</b>	<b>(2,288)</b>	<b>62,203</b>

Other segment information						
Property, plant and equipment	28,520	1	1	523	2,597	31,642
Depreciation and amortization	1,822	-	-	36	-	1,858
<hr/>						
Period Ended Sept. 30, 2006						
Revenue						
External Sales	₱162,534			₱1,668		₱164,202
Inter-segment Sales	1,203	₱277	₱255		(₱1,735)	
Segment results	6,442	370	240	52	(163)	6,941
Net income	3,989	95	29	49	(171)	3,991
<hr/>						
As of December 31, 2006						
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

The following tables present additional information on the petroleum business segment of the Company as of September 30, 2007 and December 31, 2006 and for the nine-month periods ended September 30, 2007 and 2006:

(Amounts in millions)

	Retail	Lube	Gasul	Industrial	Marketing	Total
<hr/>						
<b>Property, plant and equipment</b>						
As of Sept. 30, 2007	₱4,288	₱536	₱263	₱53	₱23,380	₱28,520
As of December 31, 2006	4,236	573	263	55	17,066	22,193
<hr/>						
<b>Capital Expenditures</b>						
As of Sept. 30, 2007	₱320	₱1	₱64	₱4	₱11,803	₱12,192
As of December 31, 2006	250	-	79	7	4,233	4,569
<hr/>						
<b>Revenue</b>						
Period ended Sept. 30, 2007	₱63,915	₱1,352	₱7,988	₱51,783	₱26,788	₱151,826
Period ended Sept. 30, 2006	65,187	1,182	6,536	56,583	34,249	163,737

## Geographical Segments

The following tables present revenue information regarding the geographical segments of the Company for the nine-month periods ended September 30, 2007 and 2006:

(Amounts in millions)

	<b>Petroleum</b>	<b>Insurance</b>	<b>Leasing</b>	<b>Marketing</b>	<b>Elimination</b>	<b>Total</b>
<b>Period ended Sept. 30, 2007</b>						
Revenue						
Local	<b>₱129,413</b>	<b>₱357</b>	<b>₱219</b>	<b>₱2,094</b>	<b>(₱2,211)</b>	<b>₱129,872</b>
Export/International	<b>22,413</b>	<b>54</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,467</b>
<b>Period ended Sept. 30, 2006</b>						
Revenue						
Local	<b>₱134,476</b>	<b>₱252</b>	<b>₱255</b>	<b>₱1,668</b>	<b>(₱1,735)</b>	<b>₱134,916</b>
Export/International	<b>29,261</b>	<b>25</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,286</b>

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**10. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations**

There are no changes in the composition of the registrant during the interim period.

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**11. Changes in contingent liabilities or contingent assets since the last annual balance sheet date**

Petron has unused letters of credit totaling approximately ₱ 39 million as of September 30, 2007 and ₱ 257 million as of December 31, 2006.

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**12. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period**

**TCC-Related Matters**

In 1998, the Company contested before the Court of Tax Appeals (CTA) the collection by the Bureau of Internal Revenue (BIR) of deficiency excise taxes arising from the Company's acceptance and use of Tax Credit Certificates (TCCs) worth ₱659 million from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, the Company was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the Court of Appeals where the case is still pending.

In November 1999, the Department of Finance (DOF) Center ExCom cancelled Tax Debit Memos (TDMs) worth ₱475 million, the related TCCs and their assignments. The BIR implemented this with a letter of assessment for deficiency excise taxes of P284 million plus interest and charges for the years 1995 to 1997, as a result of the cancellation. The Company contested on the grounds that the assessment has no factual and legal basis and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000. On August 23, 2006, the Second Division of the CTA rendered its Decision denying Petron's petition and ordered it to pay the BIR P580 million representing deficiency excise taxes for 1995 to 1997 plus 20% interest per annum from December 4, 1999. Petron appealed the Division's Decision to the CTA en banc. On October 30, 2007, the CTA en banc dismissed Petron's appeal, with 2 of 4 justices dissenting. Petron will appeal the matter further to the Supreme Court.

In May 2002, the BIR issued a collection letter for deficiency taxes of P254 million plus interest and charges for the years 1995 to 1998, as a result of the cancellation of TCCs and TDMs by the DOF Center ExCom. The Company protested this assessment on the same legal grounds used against the tax assessment issued by the BIR in 1999. The Company elevated the protest to the CTA. The 2nd Division of the CTA promulgated a Decision on May 4, 2007 denying our Petition for Review for lack of merit. Petron is ordered to pay the respondent the reduced amount of P601 million representing Petron's deficiency excise taxes for the taxable years 1995 to 1998. In addition, Petron is ordered to pay the respondent 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron filed its Motion for Reconsideration on May 31, 2007, which remains pending.

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

A status quo order is in effect and the case is under mediation proceedings. Recently, the City of Manila approved the Comprehensive Land Use Plan and Zoning Ordinance (CLUPZO) (Ordinance No. 8119) that allows Petron a 7-year grace period. The passage of Ordinance No. 8119 effectively repealed Manila Ordinance No. 8027 and is in fact now being implemented by the City of Manila. On March 7, 2007, the Supreme Court rendered a Decision in the case of SJS Society vs. Atienza, directing the Mayor of Manila to immediately enforce Ordinance No. 8027.

On March 12, 2007, Petron, together with Shell and Chevron, filed an Urgent Motion for Leave to Intervene and Urgent Motion to Admit Motion for Reconsideration of the decision dated March 7, 2007, citing that the Supreme Court failed to consider supervising events, notably (i) the passage of Ordinance No. 8119 which supersedes

Ordinance No. 8027, as well as (ii) the writs of injunction from the RTC presenting the implementation of Ordinance No. 8027, the Supreme Court's decision and the enforcement of Ordinance No. 8027 improper. Further, Petron, Shell, and Chevron noted the ill-effects of the sudden closure of the Pandacan Terminals on the entire country.

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

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

#### Navotas Business Tax

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 Temporary Restraining Order issued by the Supreme Court is still in effect and will prevent the closure of the Bulk Plant until the case is decided by the Supreme Court.

#### Oil Spill Incident in Guimaras

M/T Solar I sunk in rough seas in the afternoon of August 11, 2006 en route to Zamboanga, loaded with about 2 million liters of industrial fuel oil. It now lies about 640 meters beneath the sea, at approximately 13 nautical miles southwest of Guimaras.

Petron immediately dispatched its oil spill gear, equipment and oil spill teams upon receiving information of the incident. An aerial and surface assessment was conducted to determine the extent of the 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 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) liable. The DOJ found no criminal liability on the part of Petron. However, the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the Department of Transportation and Communication (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, Petron had cleaned up all affected shorelines and was affirmed by the inspections made by Taskforce Solar 1 Oil Spill (SOS), a multi-agency group composed of officials from the Local Government Units, Departments of Health, Environment and Natural Resources, Social Welfare and Development, and the Philippine Coast Guard.

The Company collected a total 6,000 metric tons of debris which were brought to the Holcim Cement facility in Lugait, Misamis Occidental 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<sup>[1]</sup>.

The Company is 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 locals. Last November 27, 2006, Petron 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 last June 15. Petron is also putting in place internet connectivity in all the public high schools and Department of Education facilities in Guimaras.

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 BREDCO Pier in Bacolod City last March 10. 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. Petron has filed a total of ₱ 202 million against the IOPC as of October 2007. A total of ₱ 118 million has been paid to Petron. The recent installment was collected last April 30, 2007.

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1 To dispel fear of contamination in the area, personnel and equipment were brought to the sink site. In separate statements made by the Philippine Coast Guard (PCG), DENR and the Bureau of Fisheries and Aquatic Resources (BFAR), they found no traces of oil in the water. Petron engaged the services of Mindanao State University and Dr. Angel Alcala of the Silliman University to conduct an impact assessment of the sunken debris on the environment. Both studies concluded that the sinking of the ship had no effect on the environment.

Meanwhile, payments of IOPC for the first batch of Guimaras and Iloilo claimants were completed in March and May 2007, respectively.

### Bataan Real Property Case

On June 18, 2007, the Assessor of the Province of Bataan sent Petron a Notice of Revised Assessment of real properties consisting of machineries and equipment located at the Petron Bataan Refinery with a total assessed value of P11.8 Billion. Claiming that Petron had not declared/paid on machineries and equipment on its Bataan refinery since 1994, the Provincial Treasurer issued on June 19, 2007 a Notice of Delinquent Taxes demanding payment of P1.7 Billion based on the revised assessment.

Petron, in accordance with law, appealed the assessment to the Local Board of Assessment Appeals (LBAA). Petron posted a valid surety bond. Petron likewise informed the Provincial Treasurer of the appeal to the LBAA. Under the law, once an appeal is filed with the LBAA and a surety bond is posted to ensure collection of taxes, any action at collection of real property taxes is stayed.

This notwithstanding, the Provincial Treasurer proceeded with the publication of the schedule of public auction of the assets of Petron, which she had set for October 17, 2007.

Considering that October 17, 2007 was fast approaching, Petron had no other recourse but to file last October 8, 2007 with the Regional Trial Court (RTC) of Bataan, a petition for Injunction with a prayer for a temporary restraining order (TRO) and a writ of preliminary injunction to enjoin the province of Bataan from proceeding with the auction sale.

The RTC of Bataan issued an Order dated October 15, 2007 in Civil Case No. 8801 entitled Petron Corporation v. Emerlinda S. Talento, in her capacity as Provincial Treasurer of the Province of Bataan, granting a 20-day temporary restraining order (TRO) and enjoining the Provincial Treasurer from proceeding with the auction sale on October 17 or at anytime thereafter until further orders from the Court.

The RTC of Bataan ruled that the public auction of the company's properties by the Province of Bataan is premature and violates Petron's right to due process. It cited that the validity of the revised property assessments has yet to be determined by the Local Board of Assessment Appeals (LBAA), and later the Central Board of Assessment Appeals (CBAA). The Court also noted the decision of the CBAA that the bond posted by Petron is a valid substitute for a cash deposit to cover its alleged tax liabilities under protest.

On November 6, 2007, the Court issued an injunction against the Provincial Treasurer prohibiting the conduct of the auction sale until the matter is finally decided by the Court.



**Petron Corporation and Subsidiaries**  
**Receivables**  
**September 30, 2007**  
**(Amounts in Millions of Pesos)**

Breakdown:	
Accounts Receivable - Trade	<b>10,946</b>
Accounts Receivable - Non-Trade	5,940
Total Accounts Receivable	<u><u>16,886</u></u>

**AGING OF TRADE ACCOUNTS RECEIVABLES**

Receivables	1-30 days	9,658
	31-60 days	1,642
	61-90 days	131
	Over 90 days	<u>178</u>
Total		<b>11,609</b>
Allowance for doubtful accounts		<u>663</u>
Accounts Receivable - Trade		<u><u>10,946</u></u>

## Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

### Operating Revenues and Expenses

The Company's **net income** of **₱ 4.10 billion** for the nine-month period ended September 2007 showed a 3% increase from the ₱ 4.00 billion level the year before. Higher earnings emanated mainly from improved margins (₱0.12 billion) and lower non-operating charges (₱0.96 billion) owing to forex gains resulting from the continued appreciation of the peso. The recorded increment, however, was significantly reduced by the surge in income tax expense (₱0.85 billion) because of the expiration of the income tax holiday on mixed xylene sales.

**Income before income tax** rose by 19% (₱ 0.96 billion) to **₱ 6.04 billion** from the ₱ 5.08 billion during the same period last year. Similarly, earnings before interest, taxes, depreciation and amortization (EBITDA) moved up by 8% (₱ 0.72 billion) to ₱ 9.55 billion from the ₱ 8.83 billion a year earlier.

In Million Pesos	3Q 2007	3Q 2006	Inc (Dec)	% of Change
Net Income	₱ 4,104	₱ 3,997	₱ 107	3%
Pretax Income	6,037	5,077	960	19%
EBITDA	9,548	8,827	721	8%

Sales volume for the three quarters went down by 2% (0.9 MMB) to **38.96 MMB** from the 39.90 MMB a year earlier. While domestic demand increased volume by 3% (1.0MMB), product exports and supply sales declined by 17% (1.6 MMB) and 31% (0.4 MMB) respectively.

Net revenue slid by 7% (₱ 11.86 billion) to **₱ 152.34 billion** from ₱ 164.20 billion a year ago as both selling prices and sales volume went down.

	3Q 2007	3Q 2006	Inc (Dec)	% of Change
Net Revenues (MMP)	₱ 152,339	₱ 164,202	(₱ 11,863)	(7%)
Sales Volume (MB)	38,955	39,899	(944)	(2%)

Similarly, Cost of sales (COS) decreased by 8% (₱ 11.98 billion) to **₱ 141.57 billion** from the ₱ 153.55 billion reported a year earlier. The lower duty paid landed cost (DPLC) of crude that went into cost (YTD-07 average: ₱ 19.43 vs. YTD-06 average: ₱ 21.35) accounted mainly for the reduced COS level.

The resulting Gross margin rate of **7.1%** and Gross margin per liter of **₱ 1.74** were better than the 6.5% GM rate and ₱ 1.68 peso per liter contribution last year.

	3Q 2007	3Q 2006	Inc (Dec)	% of Change
Gross Margin Rate	7.07	6.49	0.58	9%
Peso Per Liter Sold	1.74	1.68	0.06	4%

Refinery Operating Expenses (which form part of cost of sales) rose to **₱ 2.62 billion**, 10 % higher than the ₱ 2.39 billion level during the comparative period the year before. The ₱ 0.23 billion escalation in opex from last year's figure was primarily driven by increased maintenance and repair costs due to turnaround activities for various process units as well as the replacement of catalysts for the CCR and GOHT units.

Higher opex level and reduced crude run (2007: 130 mbd vs. 2006: 138 mbd) pushed **cost per liter of crude processed** up to **₱ 0.46** from last year's ₱ 0.40.

	3Q 2007	3Q 2006	Inc (Dec)	% of Change
Refinery Opex (MMP)	₱ 2,623	₱ 2,391	₱ 232	10%
₱/Liter of Crude Run	0.46	0.40	0.06	15%

Selling & Administrative Expenses of **₱ 3.83 billion** also went up, recording a 3% (₱ 0.11 billion) escalation from last year's level on account mainly of aggressive advertising campaign.

The combined effect of higher expenses and lower volume increased **opex per liter sold** to **₱ 0.62** from the ₱ 0.58 a year ago.

	3Q 2007	3Q 2006	Inc (Dec)	% of Change
Selling & Admin Exp. (MMP)	₱ 3,827	₱ 3,708	₱ 119	3%
₱/Liter Sold	0.62	0.58	0.04	7%

Net Financing Costs & Other Charges of **₱ 0.91 billion** went down by more than 50% from the ₱ 1.86 billion posted a year earlier. Higher foreign exchange gains (YTD 2007: ₱ 0.65 billion vs. YTD 2006: ₱ 0.06 billion) from dollar-denominated transactions accounted mainly for the favorable variance.

In addition, interest expense on short-term borrowings declined from last year's figure brought about by the dip in borrowing level (YTD 2007 average: ₱ 18.8 billion vs. YTD 2006 average: ₱ 23.1 billion) valued at ₱ 0.23 billion resulting from lower crude purchases and lower cost due to peso appreciation. The drop in borrowing rate (YTD 2007 average: 5.2% vs. YTD 2006 average: 7.0%) equivalent to ₱ 0.25 billion complemented the reduced borrowing level.

## Capital Resources and Liquidity

As of September 30, 2007, Petron's consolidated resources reached **₱99.01 billion**, recording a 13% growth from the end-December 2006 level of ₱87.52 billion.-

Financial assets at fair value through profit and loss increased by of ₱0.06 billion (34%) to **₱0.24 billion**, brought about by the appreciation of the value of investments in marketable equity securities and proprietary membership.

Receivables – net went up by ₱1.26 billion to **₱16.89 billion** attributed largely to VAT claims from the government.

Inventories climbed to **₱29.85 billion** or an increase of ₱3.56 billion on account mainly of the hike in crude cost (September 2007; ₱26.79 per liter vs. December 2006: ₱19.98 per liter) valued at ₱4.06 billion coupled with the 165 MB build-up in product and crude inventory equivalent to ₱0.53 billion. The recorded increment was partly tempered by lower product cost translated to ₱1.03 billion.

Property, plant and equipment increased by ₱6.49 billion to **₱31.64 billion** due primarily to the company's capital expenditures for the refinery's PetroFCC project (₱4.99 billion) and Propylene Recovery Unit (₱1.58 billion). Total investment cost for the PetroFCC project as of end-September 2007 amounted to ₱7.82 billion while ₱2.19 billion was spent in the Propylene Recovery Unit.

Depreciation reduced the value of Investment properties to **₱0.21 billion** from end-December 2006 level of ₱0.22 billion.

Short-term loans showed a lower balance at **₱24.35 billion** as the company utilized internally generated funds to settle a portion of its maturing obligations.

Liabilities for crude oil and petroleum product importation of **₱17.78 billion** was more than twice the December 2006 level of ₱7.54 billion resulting from higher crude purchases (by 2.0 MMB) equivalent to ₱8.86 billion coupled with the escalation in crude cost valued at ₱1.38 billion.

Accounts payable and accrued expenses increased by ₱0.92 billion to **₱4.65 billion**, attributed largely to provisions related to PAS 39, accrual of expenses as well as liabilities to contractors and suppliers.

To partly finance the refinery's PetroFCC project, the company availed of ₱2.0 billion club loan with Citibank and Metrobank early this year, accounting for the higher Long-term debt balance of **₱13.79 billion**. Payments made on matured loans significantly reduced the recorded increase.

Income tax payable increased to **₱0.48 billion** as a result of higher taxable income due to the expiration of the income tax holiday on mixed xylene.

Other non-current liabilities rose by ₱0.11 (10%) to **₱1.16 billion** attributable mostly to the ARO liability accretion, increased cylinder deposits and dealers' cash bonds.

Retained earnings rose to **₱ 26.41 billion** owing to the ₱ 4.10 billion earnings for the three quarters of this year net of dividends payout amounting to ₱ 0.94 billion.

## Cash Flow

**Net cash inflows** from Operating activities for the nine-month period aggregating **₱ 12.98 billion** registered a sharp increase vis-à-vis the ₱ 0.78 billion level during the same period a year earlier. The incremental cash inflows emanated from lower funding requirement owing mainly to lower crude purchases and a stronger peso. This was augmented by higher cash earnings. The significant growth in net operating cash supplemented by the club loan availment in January enabled the company to fund its capital projects and pay its maturing obligations.

In Million Pesos	Sept. 30, 2007	Dec. 31, 2006	Inc./Dec.
Operating Inflows	12,980	784	12,196
Investing Outflows	(9,502)	(2,111)	(7,391)
Financing Outflows	(3,507)	5,230	(8,737)

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

Ratio	Sept. 2007	Dec 2006
Current Ratio	1.4	1.5
Debt Equity Ratio	1.8	1.7
Return on Equity (%)	16.2%	20.1%
Debt Service Coverage	7.6	3.2
Tangible Net worth	₱ 35.4B	₱ 32.3B

Current Ratio: Total current assets divided by total current liabilities. This ratio is a rough indication of a company's ability to service its current obligations. Generally, the higher the current ratio, the greater the "cushion" between current obligations and a company's ability to pay them.

Debt Equity Ratio: Total liabilities divided by tangible net worth. This ratio expresses the relationship between capital contributed by creditors and that contributed by owners. It expresses the degree of protection provided by the owners for the creditors. The higher the ratio, the greater the risk being assumed by creditors. A lower ratio generally indicates greater long-term financial safety.

Return on Equity: Net income divided by average total stockholders' equity. This ratio reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better.



Debt Service Coverage: Free cash flows add available closing cash balance divided by projected debt service. This ratio shows the cash flow available to pay for debt to the total amount of debt payments to be made. It also measures the company's ability to settle dividends, interests and other financing charges.

Tangible Net Worth: Net worth minus intangible assets. This figure gives a more immediately realizable value of the company.

**Known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity**

Inflation

From a 6.3% average in the 2006, inflation steadily eased in the first half of 2007 as it hovered at 2.6%, slightly increasing to 2.7% in September (YTD September: 2.6%). Benign inflation was sustained by stable food prices, in view of normalized weather conditions, and lower import cost with strengthening of the peso. These muted the impact of upsurge in world oil prices and high market liquidity.

91-Day Treasury Bill Rate

As of YTD September 2007, the 91-day T-bill rate average slid to 3.3% from 5.4% in the same period last year. Benign inflation coupled with reduced government borrowings due to its relatively favorable cash position largely created a highly liquid market which softened local rates. The 50-bps cut in US Federal Fund rate last September likewise contributed to the downtrend in domestic rates.

Peso - US dollar exchange rate

The peso-dollar exchange rate averaged at ₱47.1/as of YTD September, an appreciation of about 9% year-on-year (yoy). The peso's strength was sustained by robust OFW remittances and upsurge of portfolio investments flowing into the stock market.

Dubai

Dubai prices averaged \$73.4/barrel in September (YTD September: \$63.4/barrel), 23% higher versus the same period last year. In September, it reached a record high of \$76.7/barrel, largely driven by intermittent geopolitical concerns.

## Industry Oil Demand

From a contraction in 2006, demand slightly recovered in the 1H 2007 (latest available from DOE) reaching 52.04 million barrels, vs 51.97 million barrels in the same period last year. Strong consumer spending coupled with Government's aggressive programs on infrastructure development supported demand.

## Tight industry competition

As of YTD June 2007, new players collectively cornered about 14% of the market (including direct imports by end-users) as competition continues to intensify.

## **Material commitments for capital expenditures**

### Expansion of Facilities at Bawing Depot

The expansion of Bawing is being undertaken in response to the potential closure of the rationalized plant at Bula, General Santos due to a zoning ordinance. Total project cost is ₱ 0.20 billion.

### Supplemental Budget for the 2007 Service Station Funds Pool

In addition to the ₱ 0.32 billion approved for the 2007 Service Station Program, the Board approved a supplemental budget of ₱ 0.03 billion for the construction of the two additional CODO stations.

### Supplemental Budget for BTX Plant

The Chairman and the President approved a supplemental budget amounting to \$6.2 million for the BTX Plant. This brings total cost for the BTX plant from \$77.6 million to \$83.8 million.

## **Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations**

### Illegal trade practices

Cases of smuggling and illegal trading (e.g. "bote-bote" retailing, illegal refilling) continue to be a concern. These illegal practices have resulted in unfair competition among players.

## Existing or probable Governmental Regulations

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Biofuels Act of 2006. Aiming to reduce the dependence of transport sector on imported fuel, the biofuels law signed in January 2007 mandates the use of 5% bioethanol blend in gasoline within two years. Within four years from the effectivity of the Act, the National Biofuel Board or NBB (composed of key government agencies like DOE, DOST, DA) is empowered to determine the feasibility of increasing the bioethanol blend to 10%.

For diesel, a 1% biodiesel blend was mandated beginning May 6, 2007. The NBB is also empowered to determine the feasibility of increasing it to 2% blend within two years.

In compliance, Petron has invested in blending facilities to produce the compliant fuels which were made available starting May 1, 2007.

Oil Pollution Bills. Various bills seek to enforce safeguards and standards for marine vessels to address concerns over water pollution/oil spillage. Related to this, the Maritime Industry Authority (MARINA) has mandated the use of double hull and double bottom vessels for transporting black products by 2Q08.

Zoning Ordinances. New zoning ordinances, reclassifying land use from industrial to commercial/residential, were implemented by select local government units. These threaten the tenure of oil companies' depots at affected sites.

Indigenous/Alternative Fuels Bills. The Renewable Energy and Natural Gas Bills seek to push the use of renewable and environment-friendly (e.g. biomass, solar, wind) through various incentives. Similarly, there are proposals to extend tax (e.g. duty, excise) and other incentives for the manufacture, importation, sale and use of hybrid or alternative fuel vehicles.

LPG Bills. These seek to establish a comprehensive framework for monitoring and supervising the LPG sector, specifically to address unsafe and unfair trade practices such as under-filling or illegal refilling, and use of dilapidated cylinders.

### **Significant elements of income or loss that did not arise from the issuer's continuing operations**

There are no elements of income or loss that did not arise from the Registrant's continuing operations.

### **Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation**

#### TCC-Related Matters

In 1998, the Company contested before the Court of Tax Appeals (CTA) the collection by the Bureau of Internal Revenue (BIR) of deficiency excise taxes arising from the

Company's acceptance and use of Tax Credit Certificates (TCCs) worth ₱659 million from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, the Company was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the Court of Appeals where the case is still pending.

In November 1999, the Department of Finance (DOF) Center ExCom cancelled Tax Debit Memos (TDMs) worth ₱475 million, the related TCCs and their assignments. The BIR implemented this with a letter of assessment for deficiency excise taxes of P284 million plus interest and charges for the years 1995 to 1997, as a result of the cancellation. The Company contested on the grounds that the assessment has no factual and legal basis and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000. On August 23, 2006, the Second Division of the CTA rendered its Decision denying Petron's petition and ordered it to pay the BIR P580 million representing deficiency excise taxes for 1995 to 1997 plus 20% interest per annum from December 4, 1999. Petron appealed the Division's Decision to the CTA en banc. On October 30, 2007, the CTA en banc dismissed Petron's appeal, with 2 of 4 justices dissenting. Petron will appeal the matter further to the Supreme Court.

In May 2002, the BIR issued a collection letter for deficiency taxes of P254 million plus interest and charges for the years 1995 to 1998, as a result of the cancellation of TCCs and TDMs by the DOF Center ExCom. The Company protested this assessment on the same legal grounds used against the tax assessment issued by the BIR in 1999. The Company elevated the protest to the CTA. The 2nd Division of the CTA promulgated a Decision on May 4, 2007 denying our Petition for Review for lack of merit. Petron is ordered to pay the respondent the reduced amount of P601 million representing Petron's deficiency excise taxes for the taxable years 1995 to 1998. In addition, Petron is ordered to pay the respondent 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron filed its Motion for Reconsideration on May 31, 2007, which remains pending.

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

A status quo order is in effect and the case is under mediation proceedings. Recently, the City of Manila approved the Comprehensive Land Use Plan and Zoning Ordinance (CLUPZO) (Ordinance No. 8119) that allows Petron a 7-year grace period. The passage of Ordinance No. 8119 effectively repealed Manila Ordinance No. 8027 and is in fact now being implemented by the City of Manila. On March 7, 2007, the Supreme Court rendered a Decision in the case of SJS Society vs. Atienza, directing the Mayor of Manila to immediately enforce Ordinance No. 8027.

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

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

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

#### Navotas Business Tax

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 Temporary Restraining Order issued by the Supreme Court is still in effect and will prevent the closure of the Bulk Plant until the case is decided by the Supreme Court.

#### Oil Spill Incident in Guimaras

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to Petron. The recent installment was collected last April 30, 2007. Meanwhile, payments of IOPC for the first batch of Guimaras and Iloilo claimants were completed in March and May 2007, respectively.

### Bataan Real Property Case

On June 18, 2007, the Assessor of the Province of Bataan sent Petron a Notice of Revised Assessment of real properties consisting of machineries and equipment located at the Petron Bataan Refinery with a total assessed value of P11.8 Billion. Claiming that Petron had not declared/paid on machineries and equipment on its Bataan refinery since 1994, the Provincial Treasurer issued on June 19, 2007 a Notice of Delinquent Taxes demanding payment of P1.7 Billion based on the revised assessment.

Petron, in accordance with law, appealed the assessment to the Local Board of Assessment Appeals (LBAA). Petron posted a valid surety bond. Petron likewise informed the Provincial Treasurer of the appeal to the LBAA. Under the law, once an appeal is filed with the LBAA and a surety bond is posted to ensure collection of taxes, any action at collection of real property taxes is stayed.

This notwithstanding, the Provincial Treasurer proceeded with the publication of the schedule of public auction of the assets of Petron, which she had set for October 17, 2007.

Considering that October 17, 2007 was fast approaching, Petron had no other recourse but to file last October 8, 2007 with the Regional Trial Court (RTC) of Bataan, a petition for Injunction with a prayer for a temporary restraining order (TRO) and a writ of preliminary injunction to enjoin the province of Bataan from proceeding with the auction sale.

The RTC of Bataan issued an Order dated October 15, 2007 in Civil Case No. 8801 entitled Petron Corporation v. Emerlinda S. Talento, in her capacity as Provincial Treasurer of the Province of Bataan, granting a 20-day temporary restraining order (TRO) and enjoining the Provincial Treasurer from proceeding with the auction sale on October 17 or at anytime thereafter until further orders from the Court.

The RTC of Bataan ruled that the public auction of the company's properties by the Province of Bataan is premature and violates Petron's right to due process. It cited that the validity of the revised property assessments has yet to be determined by the Local Board of Assessment Appeals (LBAA), and later the Central Board of Assessment Appeals (CBAA). The Court also noted the decision of the CBAA that the bond posted by Petron is a valid substitute for a cash deposit to cover its alleged tax liabilities under protest.


On November 6, 2007, the Court issued an injunction against the Provincial Treasurer prohibiting the conduct of the auction sale until the matter is finally decided by the Court.



## SIGNATURES


Pursuant to the requirements of the Revised Securities Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant PETRON CORPORATION

Signature and Title   
LUIS A. MAGLAYA  
Corporate Secretary

Date: November 13, 2007

Principal Financial/Accounting Officer/Controller

Signature and Title   
MA. CONCEPCION F. DE CLARO  
Controller

Date: November 13, 2007