



January 18, 2008

ATTY. PETE M. MALABANAN
Head, Disclosure Department
Philippine Stock Exchange, Inc. (PSE)
Philippine Stock Exchange Center
Exchange Road, Ortigas Center
Pasig City

Dear Atty. Malabanan:

We refer to your letter requesting for clarification on the article that came out in today's issue of Manila Bulletin titled "*Petron in talks with PAFC on biodiesel supply*" which reported in part that:

"Leading oil industry player Petron Corporation is reportedly in talks with the Philippine National Oil Company-Alternative Fuels Corporation (PAFC) for a supply agreement that would satiate the former's biodiesel requirements. For the pact that is scheduled for signing in two months, the major oil player is expected to commit to buy the entire biodiesel output of PAFC, according to company chairman Renato Velasco . . . Based on PAFC's project blueprint, the company is scheduled to produce 100,000 liters of biodiesel from jatropha starting the end of this year. This shall be allotted entirely for Petron's requirements . . ."

We wish to clarify that Petron signed a Memorandum of Understanding (MOU) with PAFC last year. In the said MOU, Petron "**manifests its interest to enter into a supply agreement with PNOC-AFC** for the offtake of biodiesel from the latter's Bataan plant". This is in line with Petron's efforts to facilitate the company's compliance with the Biofuels Act.

Petron is currently in discussions with PAFC on this matter although at this point no definite commitment from both parties has been established. We will inform the Exchange of any development in this regard.

With the foregoing, we hope we have complied with your disclosure requirements.

Thank you.

Very truly yours,

A handwritten signature in black ink that reads "V. A. Ruivivar".

Virginia A. Ruivivar
Public Affairs Manager

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Business
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Petron in talks with PAFC on biodiesel supply

Leading oil industry player Petron Corporation is reportedly in talks with the Philippine National Oil Company-Alternative Fuels Corporation (PAFC) for a supply agreement that would satiate the former's biodiesel requirements.

For the pact that is scheduled for signing in two months, the major oil player is expected to commit to buy the entire biodiesel output of PAFC, according to company chairman Renato Velasco.

"Petron wants to buy all our output. We expect the deal to be finalized by March," the PAFC chair said.

Based on PAFC's project blueprint, the company is scheduled to produce 100,000 liters of biodiesel from jatropha starting the end of this year. This shall be allotted entirely for Petron's requirements.

The Biofuels Law prescribes that by 2009, oil companies must start selling at the pumps products with 2.0 percent biodiesel blend.

Unlike other fuel crops, PAFC argued that jatropha will not compete with the food chain.

"That is the biggest advantage of jatropha.

The food-versus-fuel debate is understandable, since the issue centers on the sustainability of food crops to drive bio-fuel markets in the coming years," Velasco said.

Farmers, he said, can still cultivate other cash crops, such as rice and sugar. "What we intend to do is give farmers additional income by developing idle lands by planting jatropha," he added.

On concerns raised that jatropha plantation may destroy wildlife habitat, Velasco noted that measures are being set in place to ensure that it will not result in such degree of destruction or even deforestation.