



October 14, 2008

Petron Corporation's  
Disclosure

**PHILIPPINE STOCK EXCHANGE, INC. (PSE)**  
Philippine Stock Exchange Center  
Exchange Road, Ortigas Center  
Pasig, Metro Manila

Attention: **Atty. Pete M. Malabanan**  
Head, Disclosure Department

Gentlemen:

This is in supplement to our letter dated September 30, 2008. In line with your disclosure requirements, we wish to inform the PSE that last September 26, 2008, Petron received the Final Audit Findings and Demand Letter from the Bureau of Customs informing Petron that the audit covering the period July 26, 2004 to June 26, 2007 indicates that Petron has outstanding deficiencies amounting to P623.6 Million, representing total additional assessment of customs duties and taxes inclusive of 2-time penalty for the revenue loss.

Essentially, the BOC's findings are: (i) Additional duties and VAT have to be paid since Petron used the shore receipt as the basis of computing the volume and value of the imported goods and not the transaction value or the price actually paid as evidenced by the invoices; (ii) it did not pay duties on royalties on products bought from Pennzoil; and (iii) additional duties and VAT are due because of the adjustment in the insurance premium paid on imported goods. Further, about a 2/3 of the amount being demanded by the BOC consists of penalty for alleged negligence on the part of Petron.

Petron was given 10 working days from its receipt of the Audit Report and Demand Letter on September 26, 2008, or until October 13, 2008, to pay.

On October 13, 2008, Petron filed with the BOC a request for reconsideration of the findings of the Post Entry Audit Group (PEAG) on the grounds that : (i) The royalty payments made by Petron to Pennzoil should not be included in the dutiable value of the imported base oils because they are not related to each other. The royalties are computed at the agreed percentage of the net sales value of the Pennzoil branded products manufactured and sold by Petron. The

computation has no bearing at all upon the imported base oils or their value and was not required as a condition for the sale of the base oil; (ii) The duties and taxes paid by Petron for its importations is based on the volume of products actually received as indicated in the shore receipts or surveyor's report. The shore receipt is a more accurate measure of the volume of products imported than the invoice or bill of lading. By their nature, petroleum products are volatile and their volume is greatly influenced by evaporation or changes in weather conditions while in transit or during discharge; (iii) The insurance premiums should not be adjusted to 4% of FOB but should be accepted at their actual value, which is lower than 4%, since the insurance payments are covered by official receipts for submission to the BOC; and (iv) There is no basis in imposing upon Petron a 200% administrative fine. It was not negligent in filing the import entries since the use of shore receipts was allowed by the BOC not only for Petron but for the other oil companies.

Petron awaits the action of the BOC on the request for reconsideration. If the request is denied or is not acted upon, Petron will elevate the matter to the Court of Tax Appeals for review.

We trust that we have sufficiently complied with your disclosure requirements.

Very truly yours,



**Luis A. Maglaya**  
Corporate Secretary