



October 27, 2009
Petron Corporation's Disclosure

MS. JANET A. ENCARNACION
Head, Disclosure Department
Philippine Stock Exchange, Inc. (PSE)
Philippine Stock Exchange Center
Exchange Road, Ortigas Center
Pasig City

Dear Ms. Encarnacion:

Pursuant to PSE and SEC's disclosure requirements, attached is a brief statement on the possible impact of Executive Order No. 839 on Petron.

Very truly yours,

A handwritten signature in black ink that reads "Jose Jesus G. Laurel".

JOSE JESUS G. LAUREL
Corporate Secretary

THE IMPACT OF EXECUTIVE ORDER 839 ON PETRON

On October 23, PGMA through Executive Secretary Ermita issued Executive Order No. 839 DIRECTING OIL INDUSTRY PLAYERS TO MAINTAIN RETAIL PRICES OF PETROLEUM PRODUCTS PREVAILING ON THE LAST LANDFALL OF TYPHOON “PEPENG” (October 15, 2009) DURING THE PERIOD OF EMERGENCY ON THE ENTIRE ISLAND OF LUZON.

In compliance with EO 839, Petron effected a price rollback of ₱ 1.25/li for its Premium Gasolines (VAT incl), ₱0.85/li for Regular Gasoline, ₱2.00/li on Diesel and ₱1.50/li for Kerosene effective 0600 October 27 to reflect fuel prices prevailing last October 15. These price decreases were done despite the rising costs of crude oil and finished petroleum products in the world market.

With this price control, Petron is estimated to **incur a net loss of ₱1.5 billion in the fourth quarter of 2009 alone** as it begins to “digest” higher-priced crude oil inventory in November and December.

It must be noted that the company suffered a loss of P3.9 billion in 2008 and is only beginning to recover from this record loss. Petron has also made substantial investments (over \$400-million) in the past five years alone at its Bataan Refinery to ensure the local production of Clean Air Act-compliant fuels and boost the country’s economy through the domestic manufacture of petrochemical feedstocks.

Other industry concerns include the following:

- Possible supply shortage as some oil players may opt to stop selling fuel products altogether instead of selling at a loss. It would be impossible for Petron to supply this shortfall.
- The EO does not state any duration for the price freeze, specific areas affected (for instance Palawan is considered to be in the Luzon) or list of fuel products covered. We seek a clarificatory supplement to EO 839.
- This would have a negative effect on future investments in the capital-intensive oil industry.
- Almost the whole of Luzon is already under a “price war” which means that actual pump prices of fuel products are well below suggested retail prices (SRP). In Metro Manila, for instance, diesel prices are P5.00/li lower than the SRP. This market condition can also be seen in other parts of Luzon.
- There should be a sharing of the burden (e.g. government can lower tariffs to mitigate losses that will be incurred).

Despite the difficulties that may arise from our compliance with this EO, Petron will do its best to ensure a reliable and consistent supply of fuel products.