

REPUBLIC OF THE PHILIPPINES
OFFICE OF THE PRESIDENT

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2001
2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801
4. Exact name of registrant as specified in its charter PETRON CORPORATION
5. Philippines 6. (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code:
incorporation or organization
7. 358 Senator Gil Puyat Avenue, Makati City 1200
Address of principal office Postal Code
8. (0632) 886-3888
Registrant's telephone number, including area code
9. N/A
(Former name, former address, and former fiscal year, if changed since last report.)
10. Securities registered pursuant to Sections 8 and 12 of the SRC or 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 these securities listed on the Philippine Stock Exchange.

Yes No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

Common Stocks

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC 17 thereunder or Section 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 that 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

13. The aggregate market value of the voting stock held by non-affiliates of the Registrant is ₱ 18,187,702,724.10 based on the PSE price of P1.94 as of February 14, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

N o n e

PART I - BUSINESS AND GENERAL INFORMATION

(A) Business

(1) Business Development

Petron

Petron Corporation was incorporated under the Corporation Code of the Philippines on December 15, 1966, as Esso Philippines, Inc. ("Esso Philippines"). On December 21, 1973, the Philippine National Oil Company (PNOC) acquired all of the shares in Esso Philippines and the Company was renamed Petrophil Corporation. On November 5, 1985, Petrophil Corporation and Bataan Refinery Corporation (formerly the Standard Vacuum Refining Corporation) were merged with Petrophil as the surviving corporation. Petrophil later changed its corporate name to Petron Corporation.

On March 4, 1994, PNOC sold 40% of its shares in Petron to Aramco Overseas Company B.V., a wholly owned corporation of Saudi Arabian Oil Company (SAUDI ARAMCO). On September 7, 1994, 20% of Petron's shares were listed with the Philippine Stock Exchange in the biggest Initial Public Offering (IPO) in the Philippines. Petron has four subsidiaries, which are as follows:

New Ventures Realty Corporation (NVRC) is a realty firm established in 1996. It is authorized to acquire and develop lands but it does not engage in the subdivision business. Lands suitable for use as service station sites, bulk plants or sales offices are purchased by NVRC. These lands are leased to Petron for use in the latter's operation.

Petrogen Insurance Corporation is a wholly owned subsidiary of Petron Corporation incorporated in 1996. It serves the insurance requirements of Petron Corporation. Licensed by the Insurance Commission in November 1996. Petrogen has the authority to issue policies on fire, marine, casualty and surety. Accordingly, it issues bonds for haulers, bidders and contractors. Insurance provided excludes life insurance. In 2001, it was granted authority to cover insurance for accidental death and dismemberment, travel and directors' and officers' liability.

Overseas Insurance Corporation or Ovincor was incorporated in 1995 under the laws of Bermuda for the purpose of expediting the reinsurance of Petron's insurable interests as covered by Petrogen Insurance Corporation. Reinsurance includes the insurance cover for the Refinery, the bulk plants and service station properties, petroleum and cargo insurance and performance bonds for Petron contractors and haulers as well.

Petron Foundation, Inc. (PFI) was incorporated in July 1996. This company was created to function and operate as a charitable, humanitarian, philanthropic and research foundation; to handle social, environmental, and music and arts development projects of Petron; to institutionalize and intensify Petron's active involvement in corporate and social responsibility projects; to support scholarship programs for financially-handicapped but deserving students; and to participate in other social projects supported by Petron.

2001

Marketing

Petron Corporation was among the winners in the SuperBrand 2001 Survey conducted by Reader's Digest in six Asian markets. It was chosen by readers as one of the top-performing brands in the Gas Station Category for the Philippine market.

The Company was able to put up four new company-owned stations and 29 dealer-owned outlets but divested 18 stations, resulting in a net increase of 15 service stations.

It added 7 sales centers to its network bringing the total number to 23 as of yearend.

It increased its nationwide LPG dealer complement to 178, a net increase of 6 from last year's total. It also increased its total retail outlets by 591.

The Company completed the re-imaging of 11 Metro Manila Dealer Stores using the Gasul Model Store concept.

The conversion of 74,500 dealer-owned Japanese POL-valve cylinders to the Gasul brand was completed.

The construction of the first "drive-thru" Gasul store in Zamboanga started. It is expected to be completed in March 2002.

The Allied Market Trade Department officially became the Lube Trade Department, which is mandated to handle all lube transactions with retail and commercial accounts.

Petron's Training School for dealers developed an integrated curriculum in coordination with the Technological University of the Philippines (TUP) and TESDA that aims to expose dealers and mechanics to the latest development in automotive technology.

The Service Station Engineering, Construction and Maintenance Group was granted an ISO Certification in May 2001 for the design and management of service station construction projects, the maintenance and repair of customer facilities, and the inventory management of service station equipment.

The Company entered into a Memorandum of Agreement (MOA) with the Department of Environment and Natural Resources (DENR), Federation of Jeepney Operators and Drivers Association of the Philippines (FEJODAP) and Zexel, for the implementation of a diesel engine replacement program for jeepneys. This program aims to develop the infrastructure to control the smoke emission from jeepneys by replacing old and dilapidated engines with remanufactured units. Petron's participation involves assigning service stations to conduct regular maintenance and emission testing of the participating jeepneys.

It also participated in emission testing activities at the Philippine World Trade Center as part of the company's sponsorship of the Annual Motor Show.

The Company thru its Advertising Department spearheaded the 1st Annual ArtPetron Competition. This is a painting competition with Filipino college students and students of arts as participants. The theme was "Bagong Likha, Lumang Laro" which featured children playing indigenous Filipino games.

Each of the six first place winners was given P50,000 and a trophy. Each of the six runners-up was given P20,000.00 and a Certificate of Recognition.

Refinery

The Refinery installed separate feeding facilities to Powerformer and Continuous Catalytic Reformer Unit (CCRU). This allowed the decommissioning of NHT-2 because the naphtha hydrotreating capacity of NHT-1 is sufficient at a crude run of below 160 MBSD. This project resulted in some savings.

It implemented the Drum-102 offgas Recovery Project to recover the LPG from APS-1 offgas. This project resulted in additional revenues.

Last November, the Refinery implemented the Mixed Xylene Product Treating Project. The unit was revamped and additional clay filters were installed in order to meet the bromine index specification of Petrochemical Grade Mixed Xylene which has higher value compared to the solvent grade.

The Refinery started the front-end engineering and design for the Offsites Automation Project. The target completion date of the project is July 2002.

It also started processing condensates such as Laminaria and North West Shelf during the first quarter of the year.

The Refinery reported "One Year Without Lost time Accident" on June 29, 2001 and "One Million Man-Hours Without Lost Time Accident on November 2, 2001.

It has engaged the services of a consultant to conduct a study on the structural integrity of the existing main pier and to come up with a recommendation regarding the rehabilitation of the pier.

The Department of Environment and Natural Resources-EMB Region III granted the Refinery a "One-year Permit to Operate the Air Pollution Source and Control Installation". The one-year validity (instead of six months) was attributed to the "Self-Monitoring Report" submitted by the Refinery to DENR which is in compliance with the CAA's Implementing Rules and Regulations.

The Refinery supported and provided materials for the training of over 100 out- of- school youths on "Basic Welding and Pipefitting." It also conducted two medical and dental outreach missions in the most depressed areas of Bataan where 1,296 medical and dental patients were served.

The Refinery is also actively participating in the Bataan Area Productivity Council. This is currently being chaired by the Refinery's Vice-President and General Manager. During the 5th Regional Quality and Productivity Congress held on October 17, 2001, the Refinery was awarded a Plaque of Appreciation for its contribution to the improvement of productivity in Bataan.

Supply and Operations

Petron Pandacan Terminal reached a milestone when it attained in March 2001 Two Million Man-Hours Without Lost Time Injury.

Petron maintained its ISO certification of all bulk plants and terminals by hurdling regular quality audits throughout the year.

A new LPG filling plant in Jimenez, Misamis Oriental was placed into full operation in July. The plant has six manual filling scales and the capability to refill 2,000 cylinders per day. It serves the requirements of customers in Misamis Occidental, portions of Zamboanga del Sur and Zamboanga del Norte.

The airport authorities have directed the Joint Oil Companies Aviation Fuel Storage Plant (JOCASP) to relocate its fuel facilities because with the expansion of activities at NAIA, the existing site will be used for aircraft parking and additional cargo handling space. A 25-year lease agreement for the relocation site, also within the airport compound, was entered into between the JOCASP members and airport authorities. JOCASP is a consortium among oil companies created in 1961 and its members share in the cost of storage facilities and other operations activities related to aviation fuel.

Others

Information technology has played a pivotal role in optimizing the Company's operational efficiency in the year 2001. The Company conducted training and came up with additional initiatives such as automated cash receipting, handling of consignment sales, and establishment of a Cebu-based technical support team to cover the Visayas-Mindanao area. It also introduced the use of the Data Business Warehouse, a peripheral software of SAP, which merges data from different sources throughout the organization and presents them in a user-friendly format for macro-level analysis. This has provided management and other users with the necessary information for timely decision-making.

Petron created a Special Task Force and an Asset Liability Management Committee to formulate and implement measures designed to reduce product inventories, tighten credit and maximize export sales.

It also implemented more stringent guidelines on bank accreditation and considered ratings made by external rating agencies to protect investments.

In coordination with a consultant, it developed a comprehensive foreign exchange and risk management program.

Petron Foundation, Inc.

Bigay Galing sa Kalikasan ng Bataan (Bigkis-Bataan), formerly called the Bataan Integrated Coastal Management Program, drafted on August 20, 2001 the Bataan Declaration. This states the Bataenos' commitment to promote sustainable development in the province. In consultation with various stakeholders, the Declaration paves the way for the development of the Bataan Coastal Strategy which seeks not only to address conflicts in the use of Bataan's marine and coastal resources, but also to become a strategic component of the Manila Bay Environmental Management Project.

The Foundation in coordination with the Refinery conducted the "*Kontra Kalat sa Dagat*" Program in Bataan during four occasions.

In connection with the worldwide celebration of caring for the earth, it joined the Earth Network Philippines and Partnerships for Clean Air in the "Walk for Air" at the CCP Complex. In coordination with Petron's Technical Services Department, it participated in the smoke emission testing and engine diagnostics of a total of 88 vehicles at the Malacanang Palace grounds, CCP Complex and The Fort as well as Petron Express Centers along the South and North Luzon Tollways, Mandaluyong City and Makati City. In the provinces, volunteer employees from bulk plants in Legaspi, Leyte and Misamis Oriental planted trees in reforestation sites near their respective areas. On the other hand, employees of the Bataan Refinery helped plant 8,000 propagules to rehabilitate the mangroves of Bataan.

Under the "*Puno ng Buhay*" Program, which is undertaken in partnership with ABS-CBN, the Foundation coordinated the planting of 6,000 seedlings in lands for reforestation. This program spearheaded the rehabilitation of the La Mesa Watershed.

The Foundation also started a reading literacy campaign in partnership with Sa Aklat, Sisikat Foundation, Inc. and in support of the Department of Education's Adopt-A-School Program. Through this program, it envisions creating a nation of readers by developing in children the love of reading and an awareness of values through books. The literacy campaign focuses on nine-year olds (Grade 4 level), an important point in their development as readers. Volunteer employees of Petron monitored the progress of children and the way the program is handled in nine out of seventeen schools in Marikina and in four schools in Nasugbu.

As of March 2001, "*Tulong Aral ng Petron*" (TAP) had already graduated 156 students. This program is jointly administered by the Foundation and Petron's Operations Department. It also administers the Petron Engineering Technician Scholarship (PETS) which is currently offered to qualified students in the provinces of Cavite, Iloilo and Zamboanga. PETS supports 135 scholars per school year and a total of 175 scholars have graduated since inception.

Petron Bataan Refinery in partnership with the Foundation admitted 14 new scholars for the school year 2001-2002. The Refinery now has 46 scholars at the Bataan Polytechnic State College. Last March 2001, nine of the scholars graduated, two of them with honors.

The Foundation thru its *Lakbayanihan* program provides health care. This is done in coordination with the Petron Human Resource, Medical groups and other departments. Medical and dental missions were conducted last year in Navotas, Metro Manila and in Tagudin, Ilocos Sur. A similar mission was also undertaken in Pandacan. A total of 6,049 patients were attended to, with a total of 3,030 patients treated in Navotas.

The Foundation actively participated as corporate sponsor in the World Leaders Build 2001 program, which commemorated the 25th Anniversary of Habitat for Humanity International. Employee volunteers of Petron together with some of the country's top corporations, put up ten (10) houses in nine sites across the country.

During the 2001 "*Lakbay Alalay*", with volunteers from Petron and its corporate partners, 1,740 incidents were attended to in tollways stretching as far as Batangas in the south and Pampanga in the north. Bataan and Baguio have been added as "*Lakbay Alalay*" sites.

"*Lingap Kapwa*" was established to institutionalize relief operations in response to both natural and man-made exigencies. It partnered with ABS-CBN which provided information dissemination services.

In 2001, it assisted 150 families in Tondo who were fire victims by distributing bags of relief goods. In Camiguin Province, assistance was given to 400 families who were flood victims.

Petron Foundation won three major awards from the Public Relations Society of the Philippines during the 36th Anvil Awards on February 23, 2001 for its socio-civic programs in the areas of education, environment, health and social services. Petron received an Anvil Award of Excellence for P.R. Programs for its corporate umbrella program, Volunteerism in Action. It also won two Anvil Awards of Merit for P.R. Programs for its environmental awareness program Earth Day/Month Celebration and its continuing coastal clean-up drive *Kontra Kalat Sa Dagat*.

2000

Marketing

Fourteen (14) complementary non-fuel business locators (e.g. McDonald, Starbucks, etc) were integrated into Petron's service station network. Six new Treats Convenience Stores were added to our network of 12 convenience stores.

Petron opened 33 new stations and divested 23 unprofitable ones, giving it a net addition of 10 outlets.

Gasul appointed ten (10) new dealers bringing the total to 173 dealers nationwide. The retail outlet also increased by 447 stores, from 10,501 in 1999 to 10,948 (including Petron Service Station outlets).

Refinery

The country's first Mixed Xylene Plant was inaugurated on January 27, 2000. Later, the revamped Thermoform Catalytic Cracking Unit was commissioned on March 12, 2000, raising the unit's capacity from 12 MBSD to 15 MBSD.

The Refinery again passed the Third and Fourth ISO-9002 Surveillance Audit last February 16 and August 30, 2000, respectively, thus maintaining its 1998 Total Refinery System ISO-9002 certification awarded by Bureau Veritas Quality International (BVQI).

In the field of skills training and development, the Refinery was awarded by the Technical Education Skills Development Authority for its continuing support in the field of Technical and Vocational Education and Training in August 2000.

During the last quarter, the Refinery assisted the Department of Education's Non-Formal Education group at Limay in conducting a Basic Literacy Course which covers Writing, Reading and Basic Arithmetic. Over 100 individuals participated in this course.

A total of 631 patients were treated during a medical and dental mission by the Refinery in Barangay Lucanin, Mariveles.

Supply and Operations

A 7.5-MB LPG tank was commissioned in Jimenez bulk plant, Misamis Occidental. A 5-MB vertical storage tank for gasoline was constructed in Zamboanga bulk plant to replace an old tank that was decommissioned in 1999. Petron closed Jiabong bulk plant in Samar as part of its on-going program to streamline and optimize its distribution network. Notwithstanding the tension between the military and Muslim rebels in the South, and a few incidents of actual physical attacks, the Petron bulk plants in Mindanao, particularly in Parang, South Cotabato, General Santos City, Davao City and Iligan City, remained continuously manned and operational even at the height of the military offensive.

Mandaue Terminal and Gasul San Fernando LPG plant were ISO certified. This completed the ISO certification of all bulk plants and terminals. Twenty-nine (29) other sites, which were previously certified, successfully hurdled their regular quality audits and maintained their certifications.

Regular hands-on training and drills for bulk plant personnel in fire/oil spill prevention and control were conducted. Petron continued to upgrade its fire-fighting facilities.

Information Technology

The Company developed two additional SAP modules for Profitability Analysis and Payroll. The Profitability Analysis module provides information on contribution margins per product, customer, sales area, and other dimensions, based on acceptable parameters for allocating product costs and operating expenses. On the other hand, the Payroll module allows online processing of employee deductions and streamlining payroll operations by automatically reflecting updates to employee benefits/deductions made by the Human Resource and Management Department.

The Voice Over Frame Relay technology was employed. This means consolidating voice, fax, data and local area network traffic over a single network. With this technology, Petron is able to maximize its nationwide data communications network and save on communication costs i.e. calls between the Makati Head Office to remote terminals and depots are considered local calls thereby saving on long-distance charges. Installations in Poro Point, La Union; Legazpi City; San Fernando City; NAIA; Navotas; Calapan; Aparri; Rosario, Cavite and Mabini, Batangas have been completed.

Petron also adopted the BW warehousing technology. This provides an integrated view of information from various sources like the company's enterprise resource planning (ERP) system, other business applications, the Internet and online services such as Platts and Reuters. It will be an invaluable tool in decision-making and is expected to lessen the processing load of the company's computer hardware for operational transactions as well as result in faster availability of information in required formats for analysis.

Petron Foundation, Inc.

Scholarship Programs

Petron's scholarship programs have produced 404 graduates. At present, there are 190 students who are receiving assistance from the Company's various scholarship programs like the Tulong Aral, Petron Engineering Technician Scholarship and the Bataan Refinery Scholarship. In April 2000, ten (10) scholars of the Refinery graduated, two of them with honors. Five Petron employees also served as advisers to 1,436 scholars from 15 universities and colleges under the Junior Achievement Philippines, Inc. (JAPI) training program.

"*Tuklas*" mandate was redefined not to limit itself to be a mere reading center in communities where Petron operates. It has now become a center for literacy campaigns for the young and underprivileged and a center for livelihood training opportunities for the community. It has expanded its commitment to schools specifically public elementary schools. In relation to this, the Foundation laid the groundwork for partnership with the Department of Education and Culture in its "*Adopt-A-School Program*" and Sa Aklat, Sisikat Foundation.

The Foundation conducted a "*Tsuper Dunong*" seminar for 65 members of the DZRH-Operation Tulong. Next year, "*Tsuper Dunong*" seminars will be conducted at various barangays. The program will emphasize enforcement.

Environmental Programs

On environmental concerns, Petron Foundation, thru its Bataan Integrated Coastal Management Program, accomplished the following:

- Together with the Manila Bay Environmental Management, it drafted the Bataan Coastal Strategy (BICMP) which shall be the blue print for the province's sustainable development. This is the result of a province-wide consultation workshop conducted by the Project Management Office and discussions with UNDP International Maritime Organization, the BICMP Executive Committee and members of the Bataan Coastal Care Foundation (BCCF).
- Undertook "*Kontra Kalat Sa Dagat*" on three occasions wherein close to 20 metric tons of garbage were collected along the coastlines of Bataan. Some 33,000 volunteers from 12 towns of Bataan and employees of Petron from the Head Office and Refinery participated in these projects.
- Extended support of coastal clean-up to the Cavite provincial government through its Cavite's Eco-Action in Motion.
- Initiated the celebration of an Earth Day every month.
- Participated in the "*Save the La Mesa Watershed's Adopt-A-Tree Project*".
- Conducted a forum on the "Clean Air Act".
- Signed a Memorandum of Agreement with "*Zero Basura Philippines*" for Petron to promote a company-wide waste management program.

Other Social Activities

Petron Foundation also organized several medical missions and relief operations which include the "*Albay Alalay for Bicol*", conducted together with DZRH-Operation Tulong and the "*Lingap Kapwa*" - a disaster management and relief operation program in partnership with ABS-CBN Foundation and Petron Reseller Trade.

In coordination with Petron Corporation's medical team, a total of 6,942 patients were treated under the "*Lakbayanihan*" Program conducted in selected areas of Batangas, Pampanga and Metro Manila.

The Foundation also distributed food, clothes and other gifts to Elsie Gaches Village and Tahanang Walang Hagdanan. Also, together with Petron Ladies' Club, Reseller Trade, Human Resources

Management Department, Advertising Department and Petron Employees' Cooperative, it treated 500 children from shelter homes in Makati., Pandacan and Pasig to a day of games, merrymaking and gift-giving under the "Project J.O.Y." program.

The Foundation launched its Summer Program for the children of Petron employees. It conducted a two-day art lesson called "*Sining Para Sa Kalikasan*" for 77 participants. This was followed by field trips to the Makati Fire Department and the Ninoy Aquino International Airport and the Saudia Airlines Facilities. The summer was capped with a session on Aloha Mental Arithmetic Classes.

It also set up the Pandacan Memorabilia, a museum which houses an assortment of artifacts, trivia and other mementos showcasing the 67-year history of Petron.

1999

Marketing

The Company adopted an integrated approach in reaching its target customers. It conducted sports and special events, promos and civic works. It also continued its ad placements in core programs. Partnership with Industrial accounts, dealers and customers were likewise given emphasis as it sponsored concerts of various local and foreign artists. Some of its noted activities for the year were the grand draw for "*Tic-Tac to Millions*" and "*Tatlong Paandar*" which were conducted at Eat Bulaga TV show of the GMA Channel in February 1999 and the launching of "*Angels on the Road*", a year-round motorist assistance that also helps pedestrians in cooperation with Angel Radyo.

Petron's "*Your Friend on the Road*" program was highlighted by the annual "*Lakbay Alalay*" activity that started in 1987. Petron used to exclusively render motorist assistance along the North and South Expressways during the Holy Week. With its success through the years, competition has followed suit and launched similar programs, which have not been at par with the level of service extended by Petron.

Refinery

The Petron Refinery hurdled the first ISO-9002 Surveillance last March 1999, maintaining its Total Refinery System ISO-9002 certification that was awarded in 1998.

Supply and Operations

The Mandaue Terminal was expanded and upgraded to house the Vismin corporate headquarters. The terminal facilities which were upgraded include the tank truck loading facilities, LPG and package product warehouses, fire-fighting system, power house and pier facilities. These facilities are designed to increase operational efficiency, meet increasing demands of the market and uplift company image. The LPG plants located in Bacolod, Davao, Iloilo, Jimenez, Legaspi, and Limay were also upgraded. An LPG terminal was built in the Mabini, Batangas bulk plant. The terminal has two 20-MB spherical tanks and has provisions for additional LPG tankage. However, the planned construction of the cylinder refilling plant did not push through.

The Gasul plant in Pasig was assessed by Lloyds International to be ISO 9002 compliant. Its conformance to ISO standards included all aspects of operation (order and billing, dispatching, warehousing, cylinder filling, etc.) The Limay Terminal was also issued an ISO 9002 certification in

May 1999. The certification includes all terminalling functions, tank truck operations, LPG operations and asphalt operations.

The Company also completed the construction and inauguration of eight (8) Petroleum Oil and Lubricant (POL) Dumping Stations (similar to a service station) in major camps of the Armed Forces of the Philippines and the Philippine National Police. These projects were initiated as part of the 1997 10-year supply agreement with AFP/PNP.

In support of Management's call for cost efficiency measures, the Company closed down the bulk plants at Malitbog and Jolo. These bulk plants were found to be non-income generating units due to meager thruput, high cost of operations, uncertain market potential and/or high security risk. The feasibility of other bulk plants was also reassessed.

Petron Pandacan Laboratory was accredited by the Department of Public Works and Highways to undertake quality tests of asphalt products for government infrastructure projects.

Others

Petron Corporation moved to its new office at Petron MegaPlaza, a 45-storey office condominium building in February 1999. Petron bought from the developer, Megaworld Properties and Holdings, Inc. 17 office floors and 209 parking slots equivalent to 20,739 square meters of floor space.

Petron Foundation, Inc.

The Foundation continued to undertake programs to promote social and environmental objectives of the company.

Scholarship Programs

For school year 1999-2000, Petron Foundation sponsored a total of 229 scholars thru the following programs:

- "*Tulong Aral ng Petron*" (TAP) - Qualified high school graduates are given financial assistance so they can finish a two-year technical or vocational course. A passing grade in all subjects is a requirement to maintain the scholarship. There are 59 scholars in 23 Petron locations.
- Petron Engineering Technician Scholarship (PETS) - PETS is being offered to qualified students in the provinces of Cavite, Iloilo and Zamboanga. The program is designed to create a select group of 15 Petron scholars per year level for specific engineering technician courses in the Cavite College of Arts and Trades, Western Visayas College of Science and Technology and the Zamboanga City Polytechnic College.
- Bataan Refinery Scholarship - Petron Bataan Refinery in partnership with the Petron Foundation provides full four-year scholarships to 14 selected college students enrolled at the Bataan National School of Arts and Trades in Balanga, Bataan. The grant covers free tuition fees, school uniforms, CMT uniforms and shoes, books and materials as well as meal and transportation allowances.

The Foundation established "*Tulong Kaalaman Senters*" (TUKLAS) in communities where Petron operates. A TUKLAS Center is a mini-library containing books for kids, teenagers and even young adults. To date, there are 31 TUKLAS centers.

Together with the Metropolitan Manila Development Authority and Makati Central Business District Traffic Task Force, Petron Foundation launched on March 2, 1999 the "*Tsuper Dunong*" program. "*Tsuper Dunong*" aims to create a new generation of road users who will strictly abide by traffic rules and regulations, have a genuine respect for other motorists, passengers and pedestrians and are knowledgeable of their rights and responsibilities. To achieve this objective, a one-day traffic management seminar is conducted for drivers, traffic law enforcers and barangay officials. As of December 21, 1999, there were 2,372 participants.

Environmental Programs

During the celebration of the 13th International Coastal Clean-up Day on September 18, 1999, Petron, together with the Provincial Government of Bataan and the International Marinelife Alliance, sponsored a coastal clean-up project dubbed as "*Kontra Kalat sa Dagat*". Petron employee-volunteers cleared a 75-meter stretch of Bataan's shoreline of pollution.

Petron is involved in the Bataan Coastal Care project. The project is a five-year master plan on the establishment and implementation of the Bataan Integrated Coastal Management program. On October 11, 1999, the local government of Bataan, the business community, NGOs, civic organizations and other concerned individuals signed a Memorandum of Agreement committing to undertake this program. The task of overseeing, coordinating and evaluating the program is held by the Project Coordinating Committee which is chaired by Governor Leonardo B. Roman. Furthermore, it is under the aegis of the GEF/UNDP/IMO whose project design is based on two management frameworks:

- Integrated coastal management, addressing land-water interactions and the impact of human activities in coastal areas
- Risk assessment/risk management, applying to sub-regional sea areas and the impact of human activities on marine ecosystems.

In the last quarter of 1999, Petron Foundation committed to contribute 80,000 trees for a tree-planting project along the North and South Luzon Expressways. This is a project of the Luntiang Pilipinas Foundation, Inc., which was initiated by Sen. Loren Legarda Leviste.

The Foundation has also continuously given financial support for the "*PISO PARA SA PASIG*" campaign.

(2) Business of Issuer

(A) Description of Registrant

(i) Principal products or services and their markets

Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products, mainly for the domestic market. It supplies more than one-third of the country's petroleum product requirements. It sells a full range of refined petroleum products, including: industrial fuel oil, low sulfur diesel, premium and regular gasoline, liquefied petroleum gas (LPG), aviation turbo fuel, kerosene, asphalt, butane, pitch, and two grades of solvent.

Surplus fuel oil, diesel, naphtha and asphalt are exported. Lubricating oils and greases are manufactured at Petron's Lube Oil Blending Plant at the Pandacan Terminal. When necessary, some refined petroleum products are imported.

The major markets in the petroleum industry are LPG, Industrial and Retail (or Reseller) Trades.

Petron sells its products to both industrial end-users and resellers (through a nationwide network of service stations, Gasul dealers and retail outlets).

(ii) Percentage of sales or revenues contributed by foreign sales:

Sales			
	Domestic	Exports	Total
1999, in million pesos	58,221	3,547	61,768
1999, in percent	94%	6%	100%
2000, in million pesos	76,905	11,063	87,968
2000, in percent	87%	13%	100%
2001, in million pesos	81,880	6,546	88,426
2001, in percent	93%	7%	100%

(iii) Distribution methods of the products or services:

Petron's bulk petroleum products are refined from crude oil at its refinery in Limay, Bataan. From the Bataan Refinery, products are distributed to the various bulk storage terminals and direct consumer accounts nationwide using a fleet of barges and tankers. Products are distributed via pipeline to the Bataan Combined Cycle Power Plant of NPC. From the storage depots, bulk products are hauled by tank trucks to service stations and to direct consumer accounts. Sometimes products are sourced from "rationalized" depots operated by other oil companies.

Sales to customers within the terminal's tributary area are withdrawn by a tank truck along with their fuel requirements. Lubes and greases in various packages are also transported via container vans to bulk plants and terminals outside Metro Manila.

In the LPG trade, Petron has a nationwide network of retail dealerships and outlets. To guarantee customers' convenience in purchasing Gasul and accessories, retail outlets are usually located in or near neighborhoods as well as inside service stations.

(iv) New products or services:

Last year, Petron introduced the following products:

IF-1 and SFO 60

These products were introduced as alternative fuels to assist the customers in cutting down their fuel costs as well as in meeting the air emission level as required by the Clean Air Act. IF-1 was successfully tested on medium and low speed diesel engines on vessel as well as in the steam-generating units or boilers of Petron's industrial accounts. SFO 60, on the other hand, was tested on generating sets and boilers.

Synthetic Industrial Lubricants

Two synthetic-based lubricants, Hydrotur SX 68 and SX 220 were successfully introduced at Pepsi-Cola, Pampanga. Products are now being used at the compressors and gearboxes of the plant.

Quality Upgrade for Ultron and Rev X

New additive packages were utilized to achieve quality upgrade and more OEM (original engine manufacturer) approvals for Ultron and Rev X. Ultron will now have API SL rating, while Rev X will be upgraded to API CH-4.

Specialties

Kleenflush was tested and endorsed to Lube Trade. The engine flush product, from Corlink is an environment-friendly flushing oil, evaluated as alternative or replacement for the current acid-based engine flush.

(v) Competitive business conditions and the registrant's competitive position in the industry and methods of competition:

Competitive Business Conditions

Similar to 2000, the year 2001 was a difficult year for the oil industry. The major factors which affected the industry are as follows:

Slowdown in oil demand. Given the sluggish performance in the industry sector, domestic petroleum consumption in the non-NPC sector has been a downtrend. From 307 MBCD in 1999, non-NPC demand declined to 298 MBCD in 2000. The contraction continued in 2001 when non-NPC demand was estimated at 293 MBCD (full year estimate based on preliminary figures from DOE).

NPC demand of 31 MBCD in 2000 was also lower compared to 48 MBCD in 1999. While it slightly increased in 2001 to 39 MBCD, this was only temporary following outages in newly commissioned coal-fired power plants in Luzon. Generally, however, NPC demand is on a downtrend following Government's thrust to shift to indigenous fuel sources for power generation.

Volatility in Peso-dollar Exchange Rate. Also, since the onset of the regional financial crisis, the peso has remained very volatile. From an average of P39.0 in 1999, the exchange rate depreciated by 12% in 2000. It further weakened in 2001, breaching P50.0 per dollar due to a confluence of factors that included political crisis, peace and order problems and renewed weakening in regional currencies following the attacks on the US last September 11. The

continued volatility in the exchange rate implies cost uncertainties for Petron both in terms of operating and capital expenses.

Increasing Competition. Deregulation continued to intensify competition in the domestic petroleum industry. Since the industry was deregulated, DOE has reported the entry of more than 60 new players in different kinds of downstream activities.

Based on preliminary DOE figures for full year 2001, new players have captured about 10% of the domestic market (market share computation excludes lubes and greases and direct imports by end-users). For LPG, volumes sold by new entrants were particularly significant, at about 26% of the local market for these fuels. New players also captured about 10% of diesel and jet fuel sales and 7% of fuel oil volumes.

In terms of trade, following are estimated market share of new players (based on YTD October 2001 figures which is latest by-trade classification): 6% of the Reseller market; 12% of the Industrial market (excluding NPC and direct imports of end-users); and about 2% of NPC volumes.

Global players like Shell and Caltex are also taking significant steps to improve competitiveness. Among these include programs of consolidating operations regionally, including those in the Philippines, to leverage their global scale.

Entry of Natural Gas. Domestic oil demand will further be affected by the entry of the Malampaya natural gas project, which was commissioned last October 2001. The project will be used mainly to fuel 2,700 MW of baseload power plants in Southern Luzon: 1,200 MW Ilijan; 1,000 MW Sta. Rita; and 500 MW San Lorenzo power plants.

Based on the Philippine Energy Plan, natural gas will comprise 30% (equivalent to 15,654 gigawatt-hours) of the country's power generation mix in 2002, partly displacing other fuels such as oil and coal. The share of oil to total power generation is expected to decline from 17% in 2001 to 6% in 2002.

Over the long-term, natural gas is also expected to be utilized in the non-power sector. Non-power applications identified in the Energy Plan include transport, cooking, air-conditioning, lighting requirements in households and commercial establishments.

More Stringent Environmental Standards. Republic Act 8749, or the Philippine Clean Air Act of 1999, was signed into law last July 1999. The law mandated the elimination of leaded gasoline from the market in 2001, as well as the imposition of limits on the aromatics and benzene content of unleaded gasoline. It also mandated a gradual reduction in the sulfur content of diesel as well as stricter emission limits for industrial plants that would impact on fuel oil specifications as well.

Substantial capital investments will be required to comply with the stringent product specifications of the Philippine Clean Air Act.

These investments, however, are expected to put tremendous pressure on Petron's profitability, as the incremental costs could be difficult to recover if the present constraining environment continues.

There are other proposed regulations and bills which seek to enforce more stringent environmental standards, e.g. Clean Water Bill. These proposals are discussed in the section under "Existing or Probable Regulations".

Competitive Position

The aggregate sales of the oil majors declined by 1.8%. But despite the slump in the petroleum sales, Petron remained the dominant player in the petroleum business with a market share of 38.3% relative to the oil majors.

In the area of retail trade, Shell continued to be the leader with a market share of 38.3%. Petron followed with 35.5%. Its market share is an improvement from last year's 34.9%. Expectedly, the oil majors' diesel sales was significantly affected by the presence of the new players., with sales dropping by 3.3% from last year's level. Petron remained at the top in the diesel retail market as it contracted only by 0.7% while Shell and Caltex lost as much as 3.6% and 6.5%, respectively.

The Industrial Trade's civil sector recovered starting 2nd quarter from the losses experienced towards the latter part of 2000 through the 1st quarter, hence improving market by 1.2 percentage points from 31.5% in 1st quarter to 32.7% as of yearend. However, full-year sales is still lower compared to last year. Jetfuel sales dropped by 16.6% as the airline accounts maximized their tax-free import privilege. Moreover, significant volumes in diesel and fuel were not realized this year primarily due to the slowing down or closure of some base volume accounts brought about by the country's economic slump, the aggressive pricing stance of competitors, and the expiration of certain contracts. Most of the existing accounts also maximized NPC's One-Day Power Sale (ODPS).

Meanwhile, sales to National Power Corporation increased by 43.5% as a result of acquiring the requirements of Sucat Thermal Power Plant from April to December 2001 and the increased utilization of oil-based power plant (including the Bataan Combined Cycle Power Plant).

Industrial Trade was able to secure the supply requirements of two airlines.

Retail sales in the Lubricant business posted a 14.9% increase over last year's performance, thus, partially offsetting the 11.0% decline in the industrial sector. Market share in the lubes business as of December stands at 25.0%, up by 1.5 percentage points over last year's share.

In August 2001, NPC awarded the lube requirements of its Power Barge 101 to 104 to Petron.

Gasul's sales declined by 4.4% against the industry's 3.2% decline. This translates to a slide in market share by 0.5% percentage point-from 42.8% for 2000 to 42.3% for 2001. Nonetheless, Gasul remains the market leader in LPG.

New export markets were tapped during the year. These included regular fuel oil (IFO) and straight run fuel oil (SRFO) accounts involved in power generation and lubeoil production.

The income generated from 19 Treats C-Stores and 19 non-fuel business locators increased by 40% compared to 2000.

Methods of Competition

The continued onslaught of new players' aggressive pricing and expansion strategies prompted the Trade to launch a series of regional sales promotions to protect sales volume levels. The "Pump-A-Prize" sales promo was launched in Metro Manila in June, followed by North Luzon Provincial's "Rev, Raffle, and Roll", South Luzon Provincial's "Kursunadang Kulay, Libu-libong Bigay" in August. In the Visayas, the "Dose Beinte-Singko" was implemented in October and the Mindanao's "Pumpasada't Paporma, Halad sa Petron" in the same month.

To foster customer loyalty and acquire captive market in order to further secure sales volume, Retail Trade began the development and deployment of its card program. The initial phase of the program was implemented with the launching of the Petron-Ayala Discount Plus loyalty card in April 2001.

Gasul completed the implementation of its home delivery program, "*Tawag Lang Center*" in Metro Manila with the integration of the remaining eleven dealers into the system. The program's concept revolves around the use of a centralized and convenient retail ordering structure where Metro Manila household LPG users can call directly a certain number to place their order for Gasul. Delivery will be completed within a few hours.

The "*Lutong Bahay Deal*", a stove and LPG cylinder promo was launched on May 1, 2001 aimed at expanding Gasul's customer base for the 11-kg and 7-kg cylinders. This will run up to March 31, 2002.

Gasul introduced the 22-kg cylinder package in December 2001. The target customers are small-scale business establishments.

Petron Gasul also began the shift to metered billing for fast-food stores such as Jollibee and McDonald's. Furthermore, it conducted product knowledge and safety seminars for customers and government agencies.

Gasul earned the distinction of supplying the bottled LPG needs of Jollibee's 400th store. This milestone outlet was formally inaugurated in May 2001. Gasul already serves 360 out of Jollibee's 400 stores nationwide.

Industrial Trade was able to obtain a BIR permit to sell tax-free fuel ex-Pandacan and Limay to 23 existing accounts in economic zones, thus, enabling Petron to compete with new players with tax-free privileges.

In line with the company's thrust to develop non-oil revenue-generating programs and to leverage technical competencies, the Technical Services Department embarked on offering its field technical services, technical trainings, laboratory testing and other related consultancy services to Petron and external non-Petron customers for a fee.

Petron XCS Plus was the official sponsor of the Philippine Taekwondo Association national team. All Philippine teams that compete abroad are called the Petron Philippine Taekwondo Team.

(vi) Sources and availability of raw materials and the names of principal suppliers:

Petron sources its crude mainly from the Middle East, with the bulk imported from Saudi Aramco. The balance of its requirements came from Malaysia, Oman, Dubai and Australia.

(vii) Dependence on one or a few major customers and identity of any such major customers

The National Power Corporation remained the single biggest account of Petron with combined volume sales of 8,400 MB or about 20.3% of Petron's total domestic sales.

(viii) Transactions with and/or dependence on related parties:

Since 1993, Petron has been leasing from PNOC certain parcels of land where its refinery and most of its bulk plants, terminals, service stations are located. Petron has also been leasing from New Ventures Realty Corporation some parcels of land where some of its bulk plants, terminals and many service stations are located. Majority of the insurance policies of Petron for 2001 were placed with the Petrogen Insurance Corporation, a subsidiary. Petron purchases at least 70.5% of its Middle East Crude Oil from Saudi Aramco, which is wholly owned by the Saudi Arabian Government.

(ix) Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts

- a. Petron has trademark registrations for a term of 20 years for its Rev-X, AS, Petrogrease, Cablekote, Gearkote, Gearfluid, Gasulette, Gasulite, Gasulgrille, Gasul, Marinekote, LPG Gasul Cylinder 50 kg., Gasul and Device, LPG Gasul Cylinder 11 kg., Petron STM, Petron Autokote, GEP, Regatta, Petron Old Logo, Hypex, Extra, Petron Old Logo (Tradenname), 2T, Turnol, Petromar HD, Spinol, Airlube, Hydrotur, Petromix, Voltran, Stemol. In 2001, Petron was granted registration of the following trademarks: Petrocyl 680 and Printsol 600.
- b. Petron has pending applications for registration of the following trademarks: Ultron, Oil Improver, Lubritop, Antimist, Greaseaway, Overglide, Oil Saver, Power Booster, Grease Solve, Zerflo, Petrokut 27, Petron Dust Stop Oil, Rubbex, Process Oils, Petron XD, TDH 50, Petron Railroad Extra, Petron 2040, Petrotherm 32, Petrokote, Petrosine, Petron, 2T Motorcycle Oil, Petromate with Logo, Petron Motor Oil, New Petron Logo, Automatic Transmission Fluid, Petron HD, Petron HD3, Engine and Radiator Coolant with Radiator Device, Powerburn 2T, DCL 100, Milrol, Petropen, Petron GST, XCS, Gasulito with Stylized Letter "P", Gasulito (7kg.) Container, Petron HDX, Super DC, Molygrease, Petron GX, Asphaltseal, Petron TF, Ropgriz, Cable Lube, Petron DOT-3 Brake Fluid, Petron Engine Flush, Treats, Solvent 3040, Solvent 1425, Petron Radiator Cleaner, Adgas, Blaze, Ultimax, Petronconnects.com, LPG Gasul Cylinder 2.7 kg., "Your Friend on the Road", Petron Gasul 11-kg POL-VALVED Cylinder, Ultron Speed, Ultron Rallye, Rev-X Trekker, Rev-X Hauler, Rev-X HD, Bull's Eye, Ultron Race, Ultron Touring, Rev-X All Terrain.
- c. Petron has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and 2 flame, for Powerburn 2T, and for Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for 50 years after his death.
- d. Petron has Collective Bargaining Agreements with its three unions, namely: (a) Bataan Refinery's Union of the Philippines (BRUP); and (b) Petron Employees Labor Union (PELU); and (c) Petron Employees Association affiliated with the National Association of Trade Unions (PEA-NATU). The CBA with PELU was renewed for three (3) years effective July 1, 2001 to June 30, 2004. The CBA with PEA-NATU will expire on December 31, 2002. The CBA with BRUP expired last April 30, 2001 and negotiations for its renewal were deadlocked. As a result, the Secretary of the Department of Labor & Employment assumed jurisdiction over the labor dispute.

(x) Need of government approval of principal products or services:

The Downstream Oil Industry Deregulation Act of 1998 (R.A. No. 8479) requires the registration with the DOE of any fuel additive prior to its use in a product. Product specifications have to comply with the requirements of the Department of Trade and Industry (through the Bureau of Product Standards).

In compliance with the Philippine Clean Air Act of 1999 (R.A. No. 8749), Petron produces: (i) unleaded premium gasoline with an anti-knock index (AKI) of not less than 87.5 and Reid vapor pressure of not more than 9 psi; (ii) unleaded gasoline with aromatics not exceeding 45% by volume and benzene not exceeding 4% by volume; (iii) automotive diesel containing a concentration of sulfur not exceeding 0.20% by weight with a cetane number or index of not less than 48; (iv) industrial diesel containing a concentration of sulfur not in excess of 0.30%.

Government regulations still require the following: Fire Safety Inspection Certificates; Certificates of conformance of facilities to national or accepted international standards on health, safety and environment; Product Liability Insurance Certificates or Product Certificate of Quality; and the Environmental and Compliance Certificate issued by the DENR for service stations and for environmentally-critical projects. These certificates have to be submitted to the Department of Energy for monitoring (not regulation) purposes.

Incidentally, reports to the DOE are also required for the following activities/projects relating to petroleum products: (i) refining, processing, including recycling and blending; (ii) storing/transshipment; (iii) distribution/operation; (iv) distribution/operation of petroleum carriers; (v) gasoline stations; (vi) LPG Refilling Plant; (vii) Bunkering from freeports and special economic zones.

(xi) Effect of existing or probable government regulations on the business:

Clean Air Act (CAA)

The Clean Air Act (Republic Act 8749), mandates the following fuel standards:

	2000	2001	2002	2003	2004
A. Gasoline					
Tetra-ethyl lead	Unleaded in MMLa.	Unleaded Nationwide			
Aromatics, vol.%	45			35	
Benzene, vol.%	4			2	
B. Auto Diesel Oil					
Sulfur, wt.%	0.5	0.2			0.05
C. Industrial Diesel Oil					
Sulfur, wt.%	0.5	0.3			

As stated earlier, compliance to the CAA requires substantial investments, which would exert pressure on the company's profitability given present socio-political pressures, which constrain the implementation of oil price adjustments to cover incremental costs.

In addition to the CAA, there are other bills which stipulate stricter environmental standards. These include:

Clean Water Bill. The Clean Water Bill proposes the creation of a water pollution control policy to cover all water resources, such as inland surface waters, groundwater, estuaries, coastal and marine waters and other water bodies whether natural or human-made, such as canals, reservoirs, dams and lakes.

The bill proposes regulations on both land-based and water-based pollutants such as industrial, commercial, agricultural, and domestic wastes.

Compensation for Oil Pollution Damage. The Oil Pollution Compensation Bill proposes the imposition of liability for oil pollution damage. It proposes to require entities, which receive more than 150,000 tons of oil in a year from all ports or terminals in the Philippines to contribute to the International Oil Compensation Fund (IOPC) in accordance with the provisions of the 1992 Fund Convention.

Oil Spill Prevention and Control. House Bill No. 11831 seeks to require oil companies to install oil spill prevention and control facilities in their tankers and to undertake immediate cleaning operations in the event of oil spill within the country's territorial waters.

Other existing/proposed regulations or bills that will have an impact on the company's business include:

Parity Tax Treatment Between Indigenous and Imported Fuel Sources For Power Generation. The Electric Power Industry Reform Act (EPIRA) provides for parity tax treatment among imported oil and indigenous fuels. Prior to the law, indigenous fuels were imposed with higher taxes largely due to royalties to the government.

With the equalization of taxes, more power generators will be attracted to use indigenous energy resources such as natural gas and geothermal. Additionally, with the tighter emission standards provided by the Clean Air Act, power producers may consider conversion of oil plants to natural gas to reduce emissions.

Opening up of Expressways to New Players. The Department of Energy and the Philippine National Construction Company have announced last January 2001 that new oil players will now be allowed to construct service stations in the North and South expressways. This is expected to result in tighter competition among oil players, including Petron, which have invested in major service station outlets along the expressways.

Proposed Pandacan Terminal Relocation. Another concern is the proposal to relocate the Pandacan Terminal. While Petron is willing to cooperate if the government determines that it is necessary to relocate its terminal, it is a matter that should be evaluated carefully considering several factors, which include safety, security, feasibility, as well as cost implications.

There Has Been Increasing Moves Towards Relocation of Fuel Depots Located in Populated Areas. With Pandacan as a precedent, there have been other proposals to relocate other depots near populated areas. There are pending bills in the House of Representatives which propose the

prohibition of the construction or maintenance of depots within a distance from a populated area. There is also a pending House Resolution which seeks an investigation of the proposed transfer of the aviation fuel storage facility of JOCASP at the NAIA.

Proposals to Create the National Oil Exchange & the Philippine Oil Corporation. There are separate bills in Congress proposing the creation of the National Oil Exchange (OILEX) and the Philippine Oil Corporation (POC). The OILEX is proposed to be the sole buyer of the country's total petroleum product requirements. On the other hand, another bill proposes the creation of a POC, which would have within its powers the capability to nationalize or take over the whole chain of operations in the domestic oil sector, i.e. from refining and distribution to marketing.

These bills adversely affect the prospects of the local oil industry as they give an impression that the deregulation is not working and that the government may possibly reverse its market reforms and bring back regulation in the oil industry. These proposals will only drive away investors, including new players, which have already made inroads into the market mainly through the use of aggressive pricing tactics.

(xii) Estimate of the amount spent during each of the last three fiscal years on research and development activities.

Combined investment & operating costs for research and development during the period were:

1999	MP 5,500.0
2000	11,800.0
2001	7,513.7

(xiii) Costs and effects of compliance with environmental laws:

In 2001, new specifications for diesel and total phase out of leaded gasoline per the Clean Air Act was implemented. The sulfur content was reduced from 0.5% to 0.2% for industrial grade diesel and 0.3% for automotive grade which resulted into higher production costs.

For the next five years, the following upgrades will be needed to comply with this environmental law:

An additional-22 MBD Gas Oil Hydrotreater, with a total investment cost of ₱ 3.3 billion. This project will be used to de-sulfurize automotive diesel oil down to 0.05%wt sulfur level per CAA requirement by 2004.

A new 10-MBD Isomerization Plant, worth ₱ 1.9 billion. This will handle the reduction of aromatics and benzene content of premium gasoline to 35% and 2%, respectively.

Solid Waste Handling Facilities amounting to ₱ 7.0 million which is in compliance with Republic Act 2003 or the Ecological Solid Waste Management Act signed into law last January 2001.

(xiv) Total number of employees:

As of December 31, 2001, the company has seven Executives, 716 Managerial, Professional and Technical employees and 529 Rank and File employees or a total of 1,252.

(B) Properties

Petron owns the largest petroleum refinery complex in the Philippines located in Limay, Bataan. This refinery has a crude distillation capacity of 180,000 BPSD. It has three Crude Distillation Units, a Vacuum Pipestill, a Thermoform Catalytic Cracking Unit, a Continuous Catalyst Regeneration Platforming Unit, a Powerformer, a Gasoil Hydrofiner, a Gas Oil Desulphurizer Unit, a Sulfur Recovery Unit, a Kerosene Merox Treater, a Naphtha Hydrotreater, an LPG Treater, a Kero Hydrosweetener, a Caustic Regeneration Unit, a Caustic Neutralization Unit, Effluent Water Treatment Facilities, seven Steam Generators, five Turbo Generators, Steam and Power generating facilities, Flare and Safety Relieving facilities, bulk asphalt export loading facilities, several crude oil storage tanks as well as several refined petroleum product storage tanks. It has its own piers and other berthing facilities one of which can accommodate even very large crude carriers. Petron also has a 7,200 barrels per day Mixed Xylene Plant.

Petron also operates an extensive network of terminals and bulk storage and satellite facilities and LPG plants which are located in Luzon, Visayas and Mindanao. Its major terminals and plants are in Limay, Bataan; Pandacan, Manila; Rosario, Cavite; Ugong, Pasig City and Mandaue City. Its bulk plants and sales offices in Luzon are located in Aparri, Cagayan; Mabini, Batangas; Calapan, Oriental Mindoro; Pasacao, Camarines Sur; Legaspi City, Albay; Puerto Princesa, Palawan; Poro Point, San Fernando, La Union; San Fernando City, Pampanga, and Navotas, Metro Manila. In the Visayas and Mindanao, the bulk plants are in Amlan, Negros Oriental; Culasi, Roxas City; Lapuz, Iloilo City; Bacolod City; Linao, Ormoc City; Anibong, Tacloban City; Isabel, Leyte; Tagbilaran City, Bohol; Tagoloan, Misamis Oriental; Iligan City; Jimenez, Misamis Occidental; General Santos City; Sasa, Davao City; Ipil, Zamboanga del Sur; Nasipit, Agusan del Norte; Parang, Maguindanao, and Zamboanga City.

As of December 31, 2001, there were 513 company-owned service stations while those owned by dealers were 658 or a total number of 1,171 service stations.

Petron has airport installations at the JOCASP, NAIA, Pasay City; Laoag City; Mactan, Cebu; and Davao City. Since Petron is no longer qualified to own the parcels of land where the Bataan Refinery, the terminals, the bulk plants and the service stations are located, these lands are now leased from PNOC and from New Ventures Realty Corporation on 25-year leases, which are renewable. Petron's lease agreements on those lands owned by private persons vary as to their terms and conditions, including the period of lease.

(C) Legal Proceedings

Litigation

In 2001, Petron was involved in certain litigation some of which are material as this term is understood under the law. These are:

1. **National College of Business and Arts (NCBA)
v. Felipe Monserrat, et. al**

RTC-Manila, Branch 30
Civil Case No. 83-16617
Date of Filing: March 29, 1983

Court of Appeals
CA-G.R. CV No. 53466
Date of Filing: March 1996

Factual Background: Plaintiff NCBA is also a claimant of the properties previously owned by brothers Felipe and Enrique Monserrat. These properties were previously levied upon on execution by Petron on the basis of favorable decisions of the Regional Trial Courts of Makati and Manila, respectively, in collection cases against the said brothers, their mother Rosario, and the Manila Yellow Taxicab Company. These parcels of land were eventually transferred to PNOC by Petron by way of property dividends.

NCBA alleging that it had bought the properties from Enrique and Felipe Monserrat, filed the action to nullify the titles. The RTC ruled in favor of NCBA and declared null and void Petron's titles to these properties.

All defendants elevated the case to the Court of Appeals where the dispute is pending.

Relief sought: Petron (and PNOC) seeks the reversal of the RTC decision and the affirmation of PNOC's titles to these properties.

Status: This appeal has been submitted for decision.

2. **Petron Corporation v. Planters Products, Inc.**

Office of the Secretary of Justice
Date of Filing: February 21, 1985

Background: This is an action for collection of unpaid deliveries to Planters Products.

Status: Collection of amount due has been endorsed to outside counsel for handling. Complaint for filing in court has been prepared. However, due to considerable amount of filing fees, the same will be filed after discussing probability of collection with outside counsel. Credit investigation of the defaulting customer is awaited.

3. **Petrophil Employees Association (PEA) v.
Philippine National Oil Company (PNOC)**

National Labor Relations Commission
Certified Case No. 0498

Date when Secretary of Labor assumed jurisdiction and certified to the NLRC for compulsory arbitration: March 7, 1988

Background: The Petrophil Employees Association (PEA), Bataan Refiners Union of the Philippines (BRUP) and PSTCEA filed a consolidated notice of strike on January 8, 1988 alleging that management violated the law on 13th month pay, non-integration of COLA, freeze hiring, non-payment of medical allowance and holiday pay. Notwithstanding the assumption order on March 7,

1988, the unions staged a strike on March 12, 1988. Petron filed a petition to declare the strike illegal and to affirm the dismissal or loss of employment status of the union officers. It contended that the issues raised by the unions are not strikeable, that the strike by PEA is illegal and that the PEA union officers have been lawfully dismissed. In the course of proceedings, PEA-NATU replaced PEA as the exclusive bargaining representative and consequently, the PEA representatives manifested that the case has become moot and academic and thus should be dismissed.

Relief demanded: Petron management wanted to pursue its claims against PEA and its officers.

Status: NLRC has dismissed this case.

4. **Aquino, et al. v. Caltex Phils. Inc.,
Petron Corporation, Liberty Bell Trading
Corporation and Fernando Santos**

RTC-Bataan, Br. 2

Civil Case No. 5901

Date of Filing: January 25, 1991

Court of Appeals

CA-G.R. CV No. 59619

Date of Filing: January 1998

Factual Background: Bataan fisherfolks filed this case for damages for loss of livelihood and damage to the environment arising from the oil spill caused by the sinking of the M/T Fernando J-1 (owned by Liberty Bell) after loading at the Petron Bataan Refinery Pier during poor weather conditions.

Relief sought: Actual damages of P2.5 Million; Compensatory damages of P5 Million; Moral damages of P5 Million; and Exemplary damages of P2 Million.

The Regional Trial Court dismissed the case upon motion of the plaintiffs themselves after an amicable settlement. Liberty Bell Trading Corporation, owner of the M/T Fernando, citing the expenses it incurred in defending its case, insisted on prosecuting its cross-claim against Petron. Liberty Bell's motion for reconsideration was denied. Liberty Bell elevated the case to the Court of Appeals.

Status: Per Resolution dated May 16, 2001, the Court resolved to consider the case submitted for decision.

5. **Paul C. Mata v. Petron and Philippine
National Oil Company (PNOC)**

RTC-Manila, Br. 19

Civil Case No. 93-64763

Date of Filing: March 2, 1993

Court of Appeals

CA-G.R. No. CV 58185

Date of Filing: June 3, 1997

Factual allegations: On a "no-cure, no-pay" arrangement, Plaintiff Paul C. Mata was engaged by Petron for the collection of amounts due Enrique and Felipe Monserrat, Rosario Monserrat and the Manila Yellow Taxicab Co. Although Mata was able to secure favorable judgments and to consolidate

titles to the levied properties, Petron, then a government-owned and controlled corporation, questioned the payment arrangement that gave some of the parcels of land, instead of cash, to Mata. This arrangement had been agreed to by Petron's previous Credit Manager. The RTC dismissed Mata's claim for having been filed prematurely because of the claims of NCBA to the properties.

Mata elevated the case to the Court of Appeals.

Relief demanded by Plaintiff: Delivery of 40% of the properties or its money equivalent.

Relief prayed for on appeal: Reversal of RTC decision.

Status of Appeal: In its Decision dated January 31, 2001, the Court of Appeals approved the Compromise Agreement and dismissed the appeal.

6. **Ernesto Maceda v. Raul Manglapus, et al.
Office of the Deputy Ombudsman for Luzon**

Background: This is a complaint against PNOC and Petron officials for certain acts deemed violative of the Anti-Graft Law in connection with the privatization of Petron.

Status: Proceedings in this case remain suspended.

7. **Petron Corporation v. Commissioner of
Internal Revenue and BIR Regional
Director of Makati, Region 8**

Court of Tax Appeals

CTA Case No. 5657

Date of Filing: July 7, 1998

Commissioner of Internal Revenue v. Petron Corporation

Court of Appeals

CA-G.R. SP No. 55330

Date of Filing: October 1999

Background: On April 24, 1998, the Revenue District Officer of Makati South demanded from Petron payment of alleged delinquent specific taxes, inclusive of surcharges and interest for the years 1993 to 1997. Petron protested the collection letter inasmuch as its excise tax liabilities for the aforementioned period were already fully paid through the use of validly issued tax credit certificates. It elevated its protest to the Court of Tax appeals (CTA) in July 7, 1998. On July 23, 1999, the CTA set aside the collection letter and ruled that Petron's acceptance of the TCCs as well as the use of TCCs to pay its taxes was valid. In October 1999, the BIR Commissioner elevated this ruling to the Court of Appeals where it is still pending.

Relief sought on Appeal: Reversal of CTA decision. Petron to pay P1,107,542,547.08 in excise tax liabilities for 1993-1997 inclusive of surcharges and interest, plus 25% surcharge and 20% annual interest from April 22, 1998.

Status: Petition is deemed submitted for decision.

8. **Petron Corporation v. Makati Commercial Estate Association, Inc. (MACEA)**

RTC – Makati, Branch 138
Civil Case No. 99-220
Date of Filing: January 28, 1999

Background: Petron filed this injunction and damage suit against MACEA because on July 31, 1998, MACEA prevented Petron, its contractors and/or authorized personnel from entering the condominium units that the company had bought from Megaworld. The Court issued a writ of preliminary injunction to MACEA. Thereafter, Petron transferred to Petron MegaPlaza.

Relief sought: Reimbursement of expenses and damages caused by the unnecessary delay in plaintiff's transfer to its new offices, moral, and exemplary damages and attorney's fees.

Status: In a decision, dated October 5, 2001, the Court approved Joint Motion to Approve Compromise Agreement. Petron has been fully paid.

9. **Petron Employees Labor Union (PELU) Versus Petron Corporation**

Labor Arbiter A. Mangandog
NCR Arbitration Branch
Date Filed: June 21, 2000

Background: PELU complained of unfair labor practice acts alleging discrimination for non-implementation of the REAP Program to the Union members. The Union also alleged that the Company has contracted out regular positions belonging to the classified positions of the Union members as embodied in the existing CBA.

During the 1998 CBA negotiations, Management offered to the Union, in lieu of general increases in the rates of pay of the Union members, the Salary Administration Program consisting of the Merit Pay and the Variable Alternative Pay known as the REAP (Rewarding Excellence through Alternative Pay) which is being implemented on the managerial, professional and technical (MPT) employees of the Company. The Union rejected Management's proposal.

On the issue of contracting out regular positions, the Company maintains that non-core activities can be outsourced to independent job contractors pursuant to its prerogative to determine the conduct of its business.

Status: The Labor Arbiter, in a decision dated September 3, 2001, dismissed the case stating that the differences in compensation packages, e.g. the MPT's total compensation package inclusive of a REAP component and for a rank-and-file under the CBA, are amply justified and do not constitute discrimination.

On the matter of contracting, the Labor Arbiter also ruled that the company exercised its management prerogative to adjust or modify its organizational and operational requirements consistent with the demands of the times, particularly as far as it adopted newer processes and automated certain aspects of its operations to remain competitive. The Arbiter also declared that precautions were taken by the Company to ensure that no unnecessary diminution of union positions or membership occurred and that the activities contracted out to legitimate contractors are non-essential to the principal business or operation of the Company.

Upon appeal by the Union to the NLRC, the decision of the Labor Arbiter was affirmed. The Commission, in its decision dated January 31, 2002, found no grave abuse of discretion committed by the Labor Arbiter. The Commission also ruled that there was also no discrimination in the implementation of the REAP since the Union rejected the said program in favor of the usual fixed annual CBA increases in wage.

10. **IN RE: Labor Dispute at Petron Corporation
Refinery Division**

National Labor Relations Commission

Date certified for compulsory arbitration: June 26, 2000

Background: On June 6, 2000, the Bataan Refiners Union of the Philippines (BRUP) filed a Notice of Strike before the National Conciliation and Mediation Board – Regional Office No. III citing as grounds thereof unfair labor practice, specifically non-payment of alternative pay benefits under the REAP (Rewarding Excellence through Alternative Pay) Program.

The office of the DOLE Secretary assumed jurisdiction over the labor dispute and certified it to the NLRC for compulsory arbitration.

Status: In a Resolution dated February 7, 2002, the NLRC dismissed the complaint of the BRUP. The Commission ruled that BRUP, having the burden to prove the Company's commission of ULP, failed to factually establish by clear and convincing evidence that the Company, in not extending to them the benefits of the REAP, was impelled by an anti-union motivation for the purpose of discouraging or encouraging membership in any labor organization. The Commission ruled further that BRUP is also estopped from imputing alleged discrimination since it did not embrace the REAP Program when it was offered and belatedly raised the issue of discrimination after seeing the substantial REAP pay-outs to the MPTs.

The Commission declared that the Company validly differentiated jobs into the MPTs and the Rank and File and accordingly granted them varying levels of pay or benefits package, which only recognizes differences in the two groups' job requirements or contributions. The non-inclusion of the BRUP members falls under the managerial prerogative to regulate according to its discretion and judgment all aspects of employment, as it was exercised in good faith for the advancement of its interest and not for the purpose of defeating or circumventing the rights of employees under special laws or valid agreements.

11. **Petron Corporation vs. Commissioner
of Internal Revenue**

Court of Tax Appeals

CTA Case No. 6136

Date Filed: July 10, 2000

Background: On November 15, 1999, the BIR assessed a deficiency tax of P651,334,263.92 (inclusive of interest, charges & penalties) based on a batch of cancelled Tax Debit Memos issued against Tax Credit Certificates (TCCs) that were assigned and transferred to Petron and used by it to pay excise taxes. The Department of Finance One-Stop-Shop Center's pursuant to Excom Resolution No. 03-05-99 declared that these TCCs were fraudulently issued and transferred.

Petron protested this tax deficiency assessment which protest remained unacted upon. Hence, it filed the Petition for Review (with Motion to Stop Collection of Deficiency Excise taxes, surcharges and interest).

Status: This case is on trial.

12. **Petition for Corporate Rehabilitation:
All Asia Capital and Trust Corporation, Petitioner**
RTC-Makati, Branch 142, Case No. 01-1122
Amount involved: P656,064,583 as of May 31, 2001

Background: As a result of losses due to non-performing loans, bad debts and write-offs, an aggressive expansion and over-diversification into allied fields draining further its financial coffers and the 1997 Asian Financial Meltdown, All Asia Capital and Trust Corporation (AACTC) found itself unable to meet its debts as they fell due and on July 16, 2001, filed its Petition for Corporate Rehabilitation. According to its Interim Balance Sheet as of May 31, 2001, AACTC has total assets of P5,212,000,000 while its total liabilities stood at P7,283,000,000. In its Schedule of Liabilities, AACTC acknowledges Petron as a creditor in the amount of P656,064,583 as of May 31, 2001. On August 27, 2001, the Court issued a Stay Order which mainly stays enforcement of all claims against AACTC.

Status: On November 5, 2001, Petron filed its Comment/Opposition to the Petition and the Rehabilitation Plan. On March 12, 2002, the Rehabilitation Receiver filed a revised Rehabilitation Plan. On March 25, 2002, the Court granted all creditors and interested parties 15 days from notice to file their respective comment/opposition to the revised Rehabilitation Plan. Petron's Comment is due on April 16, 2002. In the meantime, a creditor's meeting has been ordered by the Court to be held on April 30, 2002.

The other litigated matters are the usual collection cases, dealership cases, labor cases, and cases for damages the amount of which are not material as this term is defined in the RSA 3-4 Rules.

Related TCC Controversy

On April 6, 2000, the Office of the Ombudsman filed 18 counts/cases before the Sandiganbayan Court against former public officials and private individuals including some Petron officials. The complaints allege that these officials conspired with the officials of Department of Finance (DOF) One-Stop-Shop Center, Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) and with private individuals to defraud the government by accepting fraudulently issued TCCs amounting to P 614,686,764.00 and thereafter, by using these TCCs in payment of taxes. While these cases were being reinvestigated by the Office of the Special Prosecutor of the Sandiganbayan, the Court dismissed these cases. The Court has recently reconsidered this ruling.

On December 13, 2001, the Presidential Task Force 156 that was created to investigate and prosecute the so-called TCC anomalies, filed a criminal complaint for "Plunder" against DOF officials and private individuals including a former Petron officer. The complaint alleges that these officials conspired to amass ill-gotten wealth worth about P131M through the fraudulent use of TCCs issued to Diamond Knitting Corporation. This "Plunder" complaint is related to the aforementioned 18 criminal cases that are pending with the Sandiganbayan. The former Petron officer signed the Deeds of Assignment as official signatory of the Company. The Company has expressed its full confidence in the integrity of this former Petron official. The Company therefore expects that the Preliminary Investigation will show that there was no conspiracy involving any Petron official and that the charge against the Petron official will be dismissed.

The Company has consistently insisted that in all of the TCC transactions, the Company had relied, not only on the due issuance of the TCCs but also on the approval of the Department of Finance One-Stop Shop Center of the assignment of the TCC and in the use of the TCCs and on the BIR approval of the use of the TCC for payments of the Company's tax obligation. It was only when the BIR allowed the use of the TCC for payment of the Company's tax obligations, that the Company correspondingly issued the credit note to its customer. Thereafter, only the customer can use the same to secure petroleum products from the Company. The Company has extended full credit to its various customer to the extent of 100% of the value of each TCC. The Company and its officers have not gained any additional advantage.

PART II – SECURITIES OF THE REGISTRANT

(A) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters

(1) Market Information

The registrant's common equity is principally traded at the Philippine Stock Exchange. The high and low sales prices for each period are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price	Date	Price	Date
2000				
1 st Quarter	3.25	03-Jan-00	2.34	08-Mar-00
2 nd Quarter	2.50	03-Apr-00	1.36	26-May-00
3 rd Quarter	1.40	17-Jul-00	1.02	19-Sep-00
4 th Quarter	1.24	28-Dec-00	0.98	18-Oct-00
2001				
1 st Quarter	2.08	26-Jan-01	1.14	02-Jan-01
2 nd Quarter	2.46	14-June-01	1.58	30-Apr-01
3 rd Quarter	2.10	05,06,09-Jul-01	1.30	24-Sept-01
4 th Quarter	1.60	06,07,10-Dec-01	1.02	31-Oct-01; 05,06-Nov-01

Price as of last trading day of the year, December 28, 2001, was P1.44 per share.

The total number of stockholders as of December 31, 2001 is 204,809.

(2) Holders

List of Top 20 Stockholders As of December 31, 2001

Rank	Name	Nationality	No. of shares	%
1	Philippine National Oil Company	Filipino	3,750,000,006	40
2	Aramco Overseas Company B.V.	Netherlands	3,750,000,004	40
3	PCD Nominee Corp. (Non-Filipino)	Foreign	484,582,638	5.17
4	PCD Nominee Corp. (Filipino)	Filipino	453,155,940	4.83
5	Home Development Mutual Fund	Filipino	18,830,091	0.2
6	Francis Solco &/or Francis Bervick Solco	Filipino	18,145,000	0.19
7	Siao Tick Chong	Filipino	7,500,000	0.08
8	Aristeo Lascano Castillo	Filipino	6,471,500	0.07
9	Gilbert Martires	Filipino	5,423,308	0.06
10	Ansaldo, Godinez & co. Inc. FAO Mark V. Pangilinan	Filipino	5,400,000	0.06
11	Marciano V. Pangilinan	American	5,000,000	0.05
12	Dr. Sharad Rhahmanifard	Indian	4,000,000	0.04
13	Sim Chi Tat &/or Conching Tan Sim	Filipino	2,900,000	0.03
14	Abacus Securities Corporation	Filipino	2,828,380	0.03
15	Agaton Lim Tiu	Filipino	2,500,000	0.03
16	Ching Hai Go &/or Martina Go	Filipino	2,500,000	0.03
17	Summit Securities	Filipino	2,315,197	0.02
18	China Banking Corporation	Filipino	2,287,500	0.02
19	Pan Asia Securities Corporation	Filipino	2,200,000	0.02
20	Allied Banking Corporation	Filipino	2,145,000	0.02

(3) Dividends

No dividends were issued in 2000 and 2001. The last dividend declared by the Board of Directors was on January 26, 1999. All stockholders on record as of February 25, 1999 were entitled to a 20- centavo per share cash dividend. This was paid out on April 11, 1999.

(B) Description of Petron's Shares

The registrant's securities consist entirely of common stock with par value of P1.00 per share. Total common shares are 9,375 million, which are voting shares.

(C) Stock Ownership Plan

The Stock Ownership Plan (SOP) adopted in 1994 by PNOG which incidentally was the selling shareholder in Petron's Initial Public Offering was not a stock option plan which had to be approved by the SEC. Rather, it was a special secondary sale of Petron's shares to a selected group of persons. Entitlement of shares at the listing price of P9.00 per share was made equivalent to the employees' base pay factored by his/her service years with Petron. Petron's Executive Officers, except the Chairman, the President and the Vice President for Corporate Planning, like all regular employees, were entitled to own Petron shares under this SOP.

PART III – FINANCIAL INFORMATION

(A) Management's Discussion and Analysis or Plan of Operation.

(For convenience, U.S. dollar information in the following discussion has been translated into Philippine pesos at the exchange rate of ₱ 51.69 to US\$1.00, the Philippine peso - U.S. dollar rate as quoted by the Philippine Dealing System as of December 31, 2001.)

Results of Operations

Effective January 1, 2001, Petron reverted to the first in-first out (FIFO) method in costing crude oil and the last in-first out method (LIFO) in costing petroleum products (except lubes and greases, waxes and solvents). In prior years, cost was determined using the moving average method following the rollout of a new enterprise-wide, integrated information system in 1999. The change in inventory costing to FIFO/LIFO was made for better matching of costs and revenues. Prior year financial statements were restated to reflect the change.

2001 vs. 2000

Petron posted a net income of ₱ 1.2 billion in 2001, a reversal of the ₱ 2.5 billion restated loss incurred in 2000. Better margins as a result of higher selling price coupled with significantly lower forex losses accounted for the turnaround.

Sales volume for the year 2001 totaled 47.5 million barrels, 8% or 4.3 million barrels down versus 2000's 51.8 million barrels. Both exports and domestic sales dropped but the major decline was in exports at 36% or 3.3 million barrels. The significant drop in export sales was triggered primarily by the maintenance

turnaround in the refinery in the second quarter, poor refining margins rendering exports unattractive and the DOE directive in the fourth quarter banning exports except for Naphtha as an offshoot of the September 11 incident.

Notwithstanding the volume shortfall, total revenues of ₱ 88.4 billion edged the ₱ 88.0 billion revenues in 2000. Higher average selling prices cushioned the impact of volume shortfall. On the other hand, cost of goods sold of ₱ 81.2 billion dropped significantly from last year's ₱ 85.7 billion mainly due to lower crude prices. As a result, gross margin improved from 2.6% in 2000 to 8.1% in 2001.

Operating expenses were maintained at ₱ 3.7 billion despite inflation, a manifestation of the Company's sustained cost discipline.

Non-operating activities resulted in net charges of ₱ 1.6 billion, lower than last year's ₱ 2.5 billion. The improvement was largely due to foreign exchange gains reported this year in contrast to foreign exchange losses in 2000.

2000 vs. 1999

Petron sustained a net loss of ₱ 2.5 billion (restated) in 2000, a complete reversal of the net income of ₱ 2.4 billion in 1999. This was largely due to the company's inability to fully recover increases in crude cost compounded by the weakening of the peso vis-a-vis the US dollar.

Petron's sales volume for the year 2000 totaled 51.8 million barrels, 1% or 688 thousand barrels lower than the 52.5 million barrels sold in 1999. The decline was largely attributed to the 10% (by 4.7 million barrels) contraction in the domestic market. This, however, was offset by the growth in export sales, up by 104% or 4.7 million barrels from last year's 4.5 million barrels. Despite the drop in volume, Petron continued to assert dominance with a 38.5% share of the market as of year-end.

Revenues, on the other hand, rose by 42% or ₱ 26.2 billion because of the increase in average selling prices. Notwithstanding the hike in revenues, gross margin dropped to ₱ 2.3 billion, 70% lower than the ₱ 7.6 billion registered a year ago because of cost underrecoveries.

Operating expenses declined by 3% from ₱ 3.8 billion to ₱ 3.7 billion, reflective of the Company's commitment to pursue cost-efficiency measures.

Non-operating activities resulted in net charges of ₱ 2.4 billion, higher than last year's ₱ 425 million. The increase was largely brought about by the hike in interest charges on crude loans (owing to higher crude cost) and on short-term peso loans.

Exchange Rate Volatility

Any volatility in the exchange rate implies cost uncertainties for Petron, both in terms of operating and capital expenses. As the peso depreciates, the landed cost of imported crude oil and products, and of capital equipment increases. However, the peso remained fairly stable during most of the second half of 2001, thus contributing to Petron's improved profitability.

Financial Condition

2001

As of December 31, 2001, Petron's consolidated assets stood at ₱ 50.1 billion, 6% or ₱ 3.4 billion lower than the ₱ 53.5 billion of 2000. Petron's debt ratio was reduced from 0.70 as of December 31, 2000 to only 0.65. It was achieved through shortening of the financing cycle from 150 to 90 days reinforced by lower crude prices. Shortening the financing cycle to 90 days reduced both cash and cash equivalents and short-term loans.

Increase in allowance for market decline accounted for the drop in short-term investments.

Inventories increased to ₱ 11.6 billion from ₱ 10.4 billion as a consequence of higher volume for both finished products and crude oil. Finished products stood at 4.1 million barrels, 784 thousand barrels above previous year's level of 3.3 million barrels. Crude oil stood at 5.4 million barrels, also up by 1.3 million barrels.

Other current assets decreased to ₱ 1.7 billion from ₱ 2.0 billion due to lower deferred tax asset associated with inventory differential.

Other Assets went up by ₱ 19.0 million due mainly to the deferral of business development costs incurred in 2001.

Liabilities for crude oil and petroleum product importations slid to ₱ 3.0 billion from ₱ 5.4 billion due mainly to lower crude prices.

Accounts payable and accrued expenses were trimmed down to ₱ 3.8 billion from ₱ 4.5 billion due mainly to lower obligations arising from moderate purchases of US dollars as a result of lower dollar costs of importing crude.

The current portion of long-term debt pertained to the US\$ 20 million maturing in September 2002. The remaining US\$ 100 million will be due in September 2003.

Appropriated retained earnings increased by ₱ 2.3 billion on account of the approval by the Board of Directors of the Company's capital program for year 2002 and the outstanding capital budget for 2001.

2000

Total resources as at December 31, 2000, aggregated ₱ 53.5 billion, 2% or ₱ 1.2 billion higher than the ₱ 52.3 billion posted in December 1999. The growth was attributed to the hike in the value of inventories as well as in the increase in receivables due to higher current billings.

Total liabilities grew from ₱ 33.7 billion to ₱ 37.4 billion on account mainly of the increase in crude cost coupled with the deterioration of the peso.

As a result of the ₱ 2.5 billion net loss incurred by the Company in 2000, Stockholders' Equity also was lower by ₱ 2.5 billion.

As of year-end 2000, cash balance declined to ₱ 6.9 billion from ₱ 13.0 billion at the start of the year. This is a turnaround from the 1999 growth in cash level by ₱ 5.0 billion. The ₱ 6.1 billion net cash deficit this year was attributed to net cash outflows used in operating activities particularly for working capital requirements and the net loss sustained during the year.

1999

Petron's total resources as of December 31, 1999 stood at ₱ 52.3 billion, 20% or ₱ 8.6 billion larger than the ₱ 43.7 billion posted in December 1998. The increase was attributed to the growth in cash, inventories and fixed assets.

Total liabilities increased to ₱ 33.7 billion from ₱ 25.1 billion on account mainly of the availment of short-term loans.

Stockholders' Equity stood higher by ₱ 560 million representing income from operations (₱ 2.0 billion), equity in net earnings of affiliates (₱ 84 million), and the cumulative effect on prior years of the change in crude inventory costing from FIFO to moving average method (₱ 300 million) offset by the ₱ 1.9 billion cash dividends paid during the second quarter.

The balances of unappropriated retained earnings as of January 1, 1999 and 1998 have been adjusted for the effect of applying retroactively the change from LIFO to moving average method of costing petroleum products.

Of the total retained earnings of ₱ 9.7 billion, ₱ 2.8 billion was appropriated to finance capital projects.

Net cash inflow in 1999 amounted to ₱ 5.0 billion, the reverse of the ₱ 10.5 billion cash outflow in 1998. The growth in cash level this year stemmed mainly from the ₱ 7.2 billion net availment of short-term loans and net income of ₱ 2.4 billion partly offset by outlays for capital projects aggregating ₱ 3.7 billion and settlement of cash dividends of ₱ 1.9 billion.

Meanwhile, the decline in cash in 1998 was due mainly to investments for property, plant and equipment of ₱ 9.0 billion and net repayment of short-term loans of ₱ 8.9 billion. This was substantially offset by cash provided by operating activities amounting to ₱ 6.5 billion which was sourced mainly from the net income of ₱ 3.8 billion.

Cash Flow

The net cash used in financing activities amounting to ₱ 1.9 billion pulled down Petron's cash balance from ₱ 6.9 billion as of December 2000 to ₱ 4.4 billion as of December 2001. The financing strategy of shortening the financing cycle from 150 days to 90 days was employed to reduce Petron's level of short-term loans.

Financial Statements (in million)

	2001	2000	1999
a) Cash and Cash Equivalents			
Cash in Bank (Peso)	2,724	2,737	8,042
Citibank/PNB (\$)	5	516	105
Marketable Sec. (\$)	1,710	3,654	4,877
Total	4,439	6,907	13,024
b) Accounts Receivable-Others			
Duty Drawback, Tax Credits & other claims	1,141	1,171	624
Rec. on Crude swap	486	1,011	506
Borrow and Loan	147	71	38
Unapplied Withholding Taxes/ Tax Certificates	77	22	-
Employees Stock Option	-	-	-
Others	583	562	1,021
Total	2,434	2,837	2,189
c) Operating Expenses			
Depreciation and Amortization	1,180	1,147	941
Employee Costs	860	911	992
Maintenance & Repairs	412	384	411
Purchased Services & Utilities	390	424	479
Office Supplies	289	152	304
Advertising	273	277	342
Provision for Bad Debts	99	70	34
Taxes and Licenses	88	68	55
Insurance	42	28	71
Rental	24	77	79
Others	47	136	53
Total	3,704	3,674	3,761
d) Other Income/(Charges)			
Interest Income	415	780	951
Interest Expense	(1,823)	(1,860)	(992)
Foreign Exchange Gain (Loss)	112	(578)	(420)
Others	(319)	(796)	36
Total	(1,615)	(2,454)	(425)

Known Trends

The industry is facing more challenges in the coming year. First is the shrinking demand for oil given that natural gas will comprise 30% of the country's power generation mix as stated in the Philippine Energy Plan. In addition, the demand is affected by the slowdown in the economy. Second, competition continues to intensify. There are now more than 60 players competing in a small market and the market share of these new players is increasing. Third are the existing government laws and proposed regulations which need substantial capital investment and definitely will affect the Company's profitability. Fourth, the crude prices are still unstable given the uncertainty in the economies of the United States and Japan. Lastly, the peso-dollar exchange rate remains vulnerable to socio-political factors as well as the possible devaluation of other Asian currencies.

Material commitments for capital expenditure

The Board of Directors approved last November 2001 a capital expenditure budget of P1.5 billion for various investments in marketing, distribution and production facilities.

(B) Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

There are no changes in and disagreements with Accountants on Accounting and Financial Disclosure.

PART IV – MANAGEMENT AND CERTAIN SECURITY HOLDERS

(A) Directors and Executive Officers of the Registrant

(1) Directors

Nicasio I. Alcantara, 59 years old, has been the full-time Chairman of the Company since July 2001. He is also the Chairman and/or President of various corporations of the Alcantara Group of Companies, such as Alsings Power Holdings, Inc., Alsons Aqua Technologies, Inc., Alsons Corporation, Alsons Insurance Brokers Corporation, Alsons Power Holdings Corporation, Alto Power Management Corporation, Northern Mindanao Power Corporation, Sarangani Agricultural Co., Inc., Southern Philippines, Inc., Southern Philippines Power Corporation, Western Mindanao Power Corporation, Aquasur Resources Corporation, Alsons Land Corporation, C. Alcantara & Sons, Inc., Lima Land, Inc., Made (Market Developers), Inc., Refractories Corporation of the Philippines, Alsons Development & Investment Corporation and Conal Corporation. He is also the Treasurer and Director of All Asia Capital and Trust Corporation. Mr. Alcantara is also a Director of Bancasia Finance & Investment Corporation, United Pulp & Paper Corporation, Philodrill Corporation and Bank One Savings & Trust Corporation. He was formerly the Chairman and President of Alsons Consolidated Resources, Inc., and Mindanao Petrogen Corporation. He was also the Chairman of Coven Trade Corporation. He earned his Business Administration degree from the Ateneo de Manila University and his Masters degree in Business Administration from Sta. Clara University, California, USA.

Motassim A. Al-Ma'ashouq, 41 years old, has been the President and Chief Executive Officer of the Company since September 16, 2000. He was President and Chief Executive Officer of the Saudi Arabian Lubricating Company. He was a Vice President and a Director of Petron Corporation from 1996-1999.

Between 1992 and 1993, he was initially seconded to Star Enterprises (a joint venture between Saudi Arabian Oil Company [Saudi Aramco] and Texaco) to work as a Supply and Trading Coordinator in Houston, Texas, and later, he was Saudi Aramco's Senior Planning Analyst at its Washington D.C. office. Prior to his assignment to Petron, Mr. Al-Ma'ashouq was a Planning Coordinator in charge of domestic energy planning activities in the Corporate Planning Department of Saudi Aramco. He was also Acting Manager of Saudi Aramco's Business Analysis Department. He received his M.A. in Economics from the University of London, U.K. in 1984.

Bernardino R. Abes, 71 years old, is a non-executive Director of the Company. He is also the Chairman of the Social Security Commission and was until recently, a member of the Board of Directors of CAP Life Insurance Corporation and CAP Health Maintenance Inc. He was the Secretary of Labor from 1962 to 1964. Earlier, he was Chief of Conciliation Service and Director of Labor Relations of the Department of Labor. He was Chairman of the Land Reform Committee, Office of the President; Administrator of the Social Security System and Chairman of the Social Security Commission; Legal Adviser, Office of the Speaker, House of Representative, Senior Legal Consultant, Garments and Textile Export Board; Consultant, Department of Trade and Industry; Consultant, Philippine Senate; and Director, Clark Development Corporation. He taught at the College of Law at the University of the East and at the Far Eastern University and at the Abad Santos Law School. He graduated from the University of Santo Tomas with a degree in Bachelor of Laws.

Ziad S. Al-Labban, 41 years old, has been both Director of the Company since June 11, 1999 and the Vice President for Corporate Planning of the Company. Immediately prior to his assignment to the Company, he was Saudi Aramco's Head of the Gas Facilities and Projects Division in the Exploration and Producing Facilities and Technology Department. He began his 19 years work experience in Saudi Aramco in 1982 as systems analyst in the Exploration and Petroleum Engineering Computer Center. In 1985, he was assigned to Exxon Production and Research Company in the U.S. In 1991, Mr. Labban worked as a production engineer for Saudi Aramco's offshore and onshore oil fields. He was also assigned as Division Head responsible for the maintenance of facilities producing in excess of 1 million barrels of oil a day. In 1995, Mr. Labban was assigned to the Corporate Planning Organization where he was a planning consultant. He was also the Division Head in the Petroleum Engineering and Future Oil Development Department. From 1997, he held several short-term assignments as Manager of Production, Engineering and Future Oil Development Department, Manager of Southern Area Producing Engineering Department and Manager of Exploration and Producing Facilities and Technology Department. Mr. Labban was a Director of the Society of Petroleum Engineers in Saudi Arabia. He has a Bachelor of Science degree in Electrical Engineering and a Masters of Science degree in Petroleum Engineering from Stanford University, California, USA.

Abdullatif A. Al-Othman, 44 years old, has been a non-executive Director of the Company since June 11, 1999. He is currently the Executive Director of Saudi Aramco Affairs and was a Manager of Crude Oil Sales & Marketing Department. His 20 years work experience in Saudi Aramco mainly covers the planning and execution of major projects. Mr. Othman was involved in major programs such as Gas Gathering Phase 2, Qasim Refinery, Ras Tanura (RT) Refinery Modernization, Juaymah Gas Plant Recovery, Marjan Project Completion, and RT Refinery Upgrade Projects. He also held several managerial positions, such as Project Management Quality Coordinator and Manager of Project Support and Controls Department. He has worked in Saudi Arabia as well as in the United States and is fully familiar with the International Engineering and Construction Industry. In 1997, Mr. Othman was the President of Project Management Institute – Arabian Gulf Chapter. He has a Bachelor of Science degree in Civil Engineering from King Fahd University of Petroleum and Minerals and an MBA from Sloan School of Management, Massachusetts Institute of Technology (MIT), Massachusetts, USA.

Bob D. Gothong, 46 years old, is a non-executive Director of the Company. He is currently the Chairman of United South Dock Handlers, Inc. and of the Management Committee of WG&A. He is also the

Vice-Chairman of William Gothong & Aboitiz, Inc. and Domestic Shipowners Association (DSA). Mr. Gothong is the President and Chief Executive Officer of One Wilson Place Holdings, Inc. He is also the Director of Carlos A. Gothong & Company, Gothong Southern and Whistler Mountain Development Corporation. Mr. Gothong holds a Bachelor of Science in Commerce, Major in Transportation and Utilities and Minor in Finance. He has studied at the University of British Columbia, Vancouver, British Columbia, Canada.

Francisco L. Viray, 53 years old, is a non-executive Director of the company. He is currently Senior Executive Vice President of Union Cement Corporation, Vice-Chairman of the Board of Trans-Asia Power Generation Corporation and the Chairman and President of the Cement Manufacturers Corporation. He was the Secretary of the Department of Energy from September 1994 to June 1998 and served as the Chairman of the Board of the National Power Corporation, the Philippine National Oil Company and the National Electrification Administration. Dr. Viray was also the Dean of the College of Engineering, University of the Philippines from May 1991 to April 1993 where he had been a member of the faculty since 1970. He was the Executive Director for the National Engineering Center, U.P. from October 1988 to April 1993. Dr. Viray holds a Bachelor of Science in Electrical Engineering degree and a Master of Science in Electrical Engineering degree from the University of the Philippines. He obtained his Doctor of Philosophy in Engineering from West Virginia University, West Virginia, USA.

Jose Luis U. Yulo, Jr., 54 years old, is an independent Director as the term is defined in the Securities Regulation Code. He is currently the Chairman/CEO of Insurance of the Philippine Islands Co., Inc., and Philippine Exhibits and Theme Parks Corporation. He is the President/CEO of One Card International Co., Inc. "Mastercard" and Centrex Corporation/Octanorm Philippines. He is also the Honorary Consul of the Republic of Slovenia to the Philippines and the Chairman of the Philippine-Slovenian Business Council. He was the Chairman of the Securities Clearing Corporation of the Philippines, Philippine Central Depository, Philippine Stock Exchange Foundation and Capital Market Development Center. He served as President and Chief Executive Officer of the Philippine Stock Exchange until April 2000. He was formerly the President/CEO of the Philippine International Trading Corporation and since 1991, he has been the Chairman of the International Association of State Trading Organizations based in Slovenia and Geneva. He was a Founding Member of the ABAC and served in this organization from 1995 to 2001 as well as in the PRECURSOR OF ABAC, the Pacific Business Forum. He was also the Co-Founder/President of the Philippine Chamber of Commerce and Industry and Co-Founder/Managing Director of the Philippine Center for International Trade & Exhibits. He used to be the Secretary –General of the Asian Chamber of Commerce and Industry. He also co-established General Diesel Power Corporation, the Philippine sole distributor for Detroit Diesel Allison of General Motors Corporation. Mr. Yulo has earned a certificate from the Advanced Management College of Stanford University, U.S.A. and holds a Master in Business Management Degree from the Asian Institute of Management.

Khalid D. Al-Faddagh, 47 years old, is a non-executive Director of the Company since July 2001. He is also the Manager of Abqaiq Plants Maintenance Department of Saudi Aramco. From July 1983 to January 2001, he held various management positions in Saudi Aramco's Mechanical & Civil Engineering Division, Inspection Department and Consulting Services Department. He has a Doctorate Degree in Mechanical Engineering from the Imperial College of London.

Douhan H. Al-Douhan, 66 years old, is another independent Director as the term is defined in the Securities Regulation Code. He was a retired Executive Director of Management Services Organization of Saudi Aramco. In Saudi Aramco, he held several management positions in the Loss Prevention Department, Oil Producing Operations and Maintenance Department & Government Affairs Organization. He was actively involved in several committees like the Corporate Executive Compensation Committee, Management Development & Organization Committee, Services Review Committee, Ethics & Conflict of Interest Committee, Donation Committee, Saudi Manpower Committee & Corporate Task Force for Manpower Review.

Mr. Al-Douhan has a Bachelor of Science degree in Engineering Technology with emphasis in Manufacturing from the Memphis State University, Tennessee, USA.

Other Executive Officers

Celso L. Legarda, 60 years old, was the Vice President for Supply and Operations Division prior to his retirement on June 1, 2001 after more than 34 years with the Company. He was the Company's Vice President for Marketing Division from September 1984 to January 18, 1999. He was a Director of the Company and other PNOC subsidiaries from 1989 to 1994. Mr. Legarda held various management positions in Marketing Department. He has a Bachelor of Science degree in Mechanical Engineering from the De La Salle University.

Alfred A. Trio, 52 years old, has been the Vice President for Refinery Division since December 1, 1999. Prior to his appointment as Vice President, he was Manager of the Reseller group of the Company. He has held various management positions in Marketing and Refinery Divisions since 1987 until his recent appointment. He has been with the Company for 30 years. He has a Bachelor of Science degree in Chemical Engineering.

Walter A. Tan, 55 years old, has been the Vice President for Marketing since September 16, 2000. He was the Vice President for PetroPower Project from January 19, 1999 to September 15, 2000 and the Vice President for Supply and Distribution from 1997 to January 18, 1999. In his 32-year career in the Company, he has held various management positions in Marketing and Refinery Divisions. In 1995, he was given a special assignment as head of the Organizational Design Task Force which was responsible for streamlining and restructuring the Company's organization. He has a Bachelor of Science degree in Chemical Engineering.

Jose K. Campos, Jr., 56 years old, has been the Vice President for Supply and Operations since June 1, 2001. He started working for the company (then known as Esso Philippines, Inc.) on October 20, 1969 as a Marketing Analyst Trainee in the Marketing Economics and Research Department and became General Sales Representative at Industrial Trade Department in June 1972. In April 1974, he became Industrial Sales Supervisor and held various management positions in Marketing since March 1977. He was formerly the Manager of Strategic Planning. He has been with the Company for 32 years. He has a Bachelor of Science degree in Economics from the Ateneo de Manila.

Antonio G. Pelayo, 47 years old, is the Controller and the OIC-Vice President for Finance and Human Resources Management since March 19, 2001. His 21-year career in the Company started as an Auditor in July 1981 progressing as PNOC Administrative Systems Coordinator in August 1987. He was assigned to the PNOC Energy Companies in October 1988 as Coal/Oil & Gas Accounting Manager. He became PNOC Treasury Manager in January 1992 and then member of the Petron Organizational Design Task Force in November 1995. In October 1996, he assumed the position of Human Resources Management Manager. He was assigned as Executive Director of the PetroPower Project in January 1999 and concurrently as Corporate Communications Manager in August 2000. He has a Bachelor of Science in Commerce degree major in Accounting from the University of Santo Tomas and is a Certified Public Accountant. He earned his MBA units from the Ateneo de Manila University and B.S. Economics units from the De La Salle College – Bacolod. He completed executive and leadership programs from Cornell University and University of Virginia, USA.

Liberador V. Villegas, 57 years old, has been the General Counsel and the Corporate Secretary of the Company since September 1992. He is also the Corporate Secretary of Petron Foundation, Inc. From 1986 to 1992 he was an Assistant Government Corporate Counsel of the Philippine Government. Atty.

Villegas was connected with the law firms of Bengzon Villegas & Zarraga, of Siguion Reyna Montecillo & Ongsiako, and Puno Puno & Carlos. He also taught law at Ateneo de Manila and at the Lyceum of the Philippines. He was a Manager at the Philippine Refining Company. He is a 3rd-place Bar examinations toponotcher and is also a Civil Engineer (11th place Board examinations).

Rosario R. Eijansantos, 53 years old, has been the Treasurer of the Company and Manager of Treasurers Department since April 2001. Her 30-year career with the Company started in December 1971 at Gasul, Pasig as Accounting Clerk. She became a Senior Audit Clerk in Internal Control (now Internal Audit) in February 1973. In April 1974, she assumed the position of Payroll Assistant Trainee, then Financial Analyst in October 1974, and became Supervisor in PNOC & Tanker Accounting in June 1978. She was transferred to Corporate Accounting as Coordinator in February 1980, then Asst. Petroleum Accounting Manager in September 1987. In October 1991, she assumed the position of Petroleum Accounting Manager, then Internal Audit Manager in October 1996, and as HRM Manager in January 1999. She has a Bachelor of Science in Commerce degree major in Accounting from the Far Eastern University and is a Certified Public Accountant. She earned her MBA units from the De La Salle University.

(2) **Family Relationships** - The fuel and lube requirements of WG&A where Director Bob D. Gothong is Chairman of the Management Committee is partly supplied by Petron Corporation.

(3) **Involvement in Certain Legal Proceedings** - The current directors and executive officers are not involved in legal proceedings as defined in SRC Rule 3-3. Petron's former Vice President, Mr. Celso L. Legarda is a named respondent in the aforementioned cases disclosed with respect to the Tax Credit Certificates (TCC) controversy.

(B) Executive Compensation

(1) Executive Compensation

Petron's Executive Officers are also regular employees of the company and are similarly remunerated with a compensation package comprising of twelve (12) months base pay. In addition, they receive any mid-year and year-end gratuity pay which the Board extends to the managerial, supervisory and technical employees of the Company.

The members of the Board of Directors are elected for a term of one year. Only the members of the Board who are not Executive Officers receive remuneration for twelve (12) months in Directors' Fees and year-end gratuity pay, in addition to a compensation per meeting participation.

(2) Summary Compensation Table

Compensation of Officers and Directors

Name	Position	In Million Pesos
Jose A. Syjuco, Jr.	Chairman (January-July 2001)	
Nicasio I. Alcantara	Chairman (August-December 2001)	
Motassim A. Al-Ma'ashouq	President	
Celso L. Legarda	Vice President-Supply & Operations (January-May 2001)	
Jose K. Campos, Jr.	Vice President-Supply & Operations (June-December 2001)	
Fredesuendo G. Ong	Vice President- Marketing (January 2001)	
Alfred A. Trio	Vice President-Refinery	
Ziad S. Al-Labban	Vice President-Corporate Planning	
Walter A. Tan	Vice President-Marketing (February-December 2001)	
Mario S. Lucas	Acting Vice President-Finance/HRMD (January-February 2001)	
Antonio G. Pelayo	Acting Vice President-Finance/HRMD, Controller (March-December 2001)	
Rosario R. Eijansantos	Treasurer	
Liberador V. Villegas	General Counsel and Corporate Secretary	
Total Top 5 Officers	Aggregate (1999-2001)	135.2
Total Officers & Directors	Aggregate (1999-2001)	204.9

(C) Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Ownership

Title of Class	Name & Address record/beneficial owner	Amount & nature of record/beneficial ownership (indicate by "r" or "b")	Percent of Class
Common Stocks	Philippine National Oil Co.* PNPC Complex, Merritt Road, Fort Bonifacio, Taguig City, M.M.	3,750,000,006 (r)	40%

Common Stocks	Aramco Overseas Company B.V. ** PO Box 5000, Dhahran 31311, Saudi Arabia	3,750,000,004 (r)	40%
Common Stocks	PCD Nominee Corporation (Non-Filipino)*** G/F MSE Bldg., 6767 Ayala Avenue Makati City	484,582,638 (r)	5.17%

* Beneficial owner is the government of the Republic of the Philippines through the Philippine National Oil Company (PNOC). Shares are voted upon by the proxy of PNOC.

** Beneficial owner is Saudi Aramco which is owned by the Kingdom of Saudi Arabia. Shares are voted upon by the proxy designated by Aramco Overseas Company, B.V.

*** PCD Nominee Corporation, a wholly owned subsidiary of Philippine Central Depository, Inc. (PCD), is the registered owner of the shares in the books of the Company's transfer agent in the Philippines. The beneficial owners of such shares are PCD's participants, who hold the shares on their behalf or in behalf of their clients. PCD is a private company organized by the major institutions actively participating in the Philippines capital market to implement an automated book-entry system of handling securities transactions in the Philippines.

(1) Security Ownership of Management

Title of Class	Name & Address record/beneficial owner	Amount & nature of record/beneficial ownership (indicate by "r" or "b")	Percent of Class
Common Stock	Bob D. Gothong Gothong Compound 1 Wilson Street Lahug, Cebu City	2,814 (r)	Nil
Common Stock	Douhan H. Al-Douhan P.O. Box 1740 Dhahran, Saudi Arabia	1,000 (r)	Nil
Common Stock	Celso L. Legarda 18 M. Cuyugan Street, B.F. Homes Paranaque City, Metro Manila	768,565 (r)	0.01%
Common Stock	Rosario R. Eijasantos 128 Moscow cor. Canberra Street Green Park Vill, Manggahan, Pasig City	235,689 (r)	Nil

Common Stock	Walter A. Tan No. 34 Seoul Street, B.F. Homes Las Piñas City, Metro Manila	138,849 (r)	Nil
Common Stock	Alfred A. Trio 32 PBR Housing Limay, Bataan	241,813 (r)	Nil
Common Stock	Jose K. Campos, Jr. No. 24 King Fisher St., Green Meadows Ugong Norte, Quezon City	1,433,275 (r)	0.02%
Common Stock	Antonio G. Pelayo 7085-A Champaca St. Guadalupe Viejo, Makati City	10,360 (r)	Nil
Common Stock	Liberador V. Villegas 708 Collins Street Moonwalk Village Paranaque City, M. M.	54,860 (r)	Nil

(2) Voting Trust Holders of 10% or more

There is no voting trust between PNOC and AOC.

(3) Changes in Control

There is no arrangement which may result in a change in control of the Company.

(D) Certain Relationships and Related Transactions

1. The long-term leases between PNOC and Petron since 1994 over various parcels of land. (Note for information: The Crude Supply Agreement between Petron and Saudi Aramco is not covered because AOC does not have any direct or indirect material interest as this term is defined in the Rules.)
2. The "Parents" of the Company are:
 - (a) Philippine National Oil Co. - 40%
 - (b) Aramco Overseas Co. B.V. - 40%

The basis of control is the number of the percentage of voting shares held by each.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

Exhibit 1 - Audited Financial Statements

Exhibit 2 - Index to Financial Statements & Supplementary Schedules

(b) Reports on SEC Form 17-C

The following items were reported to the SEC as material in 2001:

1. Retirement of Mr. Fredesuendo G. Ong, Vice President for Marketing effective February 1, 2001.
2. Election of Mr. Jose K. Campos, Jr. as Vice President for Supply and Operations vice Mr. Celso L. Legarda who retired on June 1, 2001 after having served the Company for more than 34 years.
3. The election of Mr. Antonio G. Pelayo as Controller vice Mr. Mario S. Lucas who is presently the Executive Director of Petron subsidiaries.
4. The election of Ms. Rosario R. Eijansantos as Treasurer vice Ms. Wilma G. Rodriguez who is presently the Business Development Manager.
5. Approval of the holding of the Annual Stockholders' Meeting on Monday, July 30, 2001.
6. Setting of June 1, 2001 as the record date for the purpose of determining the stockholders who shall be entitled to notice and to vote at the Annual Stockholders' Meeting.
7. Endorsement to the Stockholders of the appointment of SGV as Petron external auditor for 2001.
8. Endorsement of Management's 2001 Capital Program estimated at P837 million.
9. Funding in the amount of P393.5 million for various capital projects.
10. Election of Directors and Executive Officers of Petron Corporation.
11. Election of Mr. Jose Luis U. Yulo, Jr. and Mr. Douhan H. Al-Douhan as Independent Directors last July 30, 2001 during the Annual Stockholders' Meeting.
12. Appointment of Atty. Liberador V. Villegas as General Counsel.
13. Funding in the amount of P125 million for engineering design of Refinery Projects to address the Clean Air Act and relating to utilities.

14. Contract award for a major rehabilitation of service station in the amount of about P80 million.
15. Resignation of Atty. Antonio T. Carpio as Director of Petron Corporation effective August 17, 2001.
16. Election of Mr. Bob D. Gothong as member of the Board of Directors vice Atty. Antonio T. Carpio last August 2001.
17. Funding in the amount of P1.5 billion for Petron's Refinery and Marketing Capital Programs.
18. Signing of Memorandum of Agreement among the three (3) major oil companies, Petron, Pilipinas Shell and Caltex Philippines, and the Department of Energy (DOE), to jointly undertake a comprehensive and comparative study of the various alternatives to address potential risks and hazards re: Pandacan Terminal relocation.
19. Funding in the amount of P176.5 million for projects in Marketing and Operations.
20. Award of contracts for two (2) projects at Petron Bataan Refinery estimated at P214.5 million.

The Company also submitted the following press and photo releases:

21. Press Release dated January 8, 2001 regarding the implementation of rollback of fuel prices.
22. Submission last January 5, 2001 of discussion points for year-end interviews for the media.
23. Press Release last February 2, 2001 stating that Petron has no plans of adjusting fuel prices.
24. Press Release last February 6, 2001 about Petron's P1.1 billion net loss in 2000.
25. Press Release on February 23, 2001 concerning the Anvil awards received by Petron.
26. Press Release on March 6, 2001 which indicates that the appreciation of the peso relative to the US dollar will help in tempering local oil prices.
27. Press Release on March 27, 2001 disputing the accusations made by the Philippine Consumers Foundation, Inc. alleging that Petron owes the national treasury P1-billion in back taxes for the year 1990.
28. Press Release on May 8, 2001 disclosing Petron's P348 million net income for the 1st quarter of 2001.
29. Press Release indicating that Petron will be assisting all Holy Week travelers (Lakbay Alalay)
30. Press Release on June 19, 2001 about the signing of a Memorandum of Agreement with the United States Trade and Development Agency (USTDA) for partial funding of the basic engineering design package for additional refining facilities required under the Clean Air Act.
31. Press Release dated July 2, 2001 announcing new fuel prices.

32. Press Release on July 20, 2001 stating a price rollback of petroleum prices.
33. Press Release about the implementation of a price rollback for LPG.
34. Press Release about Petron employees joining other companies in building houses for the poor in nine sites.
35. Press Release last September 12, 2001 –an announcement made after the attack of the World Trade Center assuring the public that Petron has adequate petroleum stocks in its inventory to keep prices at current levels.
36. Press Release on October 8, 2001 expressing Petron’s willingness to cooperate with the Government if it decides to relocate the Pandacan Terminal.
37. News Advisory about the incident which occurred at the Refinery on October 17, 2001 causing the shutdown of the Caustic Neutralization Unit. Petron assures the public of adequate supply of fuel products.
38. Press Release on October 25, 2001 announcing earlier than expected a price rollback for its petroleum products.
39. Press Release on November 6, 2001 reporting Petron’s net income of P921 million as of September.
40. Press Release last November 16, 2001 stating the implementation of another price rollback.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on _____, 2002.

By:

NICASIO I. ALCANTARA
Chairman

MOTASSIM A. AL-MA'ASHOUQ
President/Chief Executive Officer

ANTONIO G. PELAYO
Controller/OIC – VP Finance/HRM

LIBERADOR V. VILLEGAS
Corporate Secretary

SUBSCRIBED AND SWORN to before me this _____ day of _____ 2002 affiant(s) exhibiting to me his/their Community Tax Certificates, as follows:

NAMES	CTC#	DATE OF ISSUE	PLACE OF ISSUE
Nicasio I. Alcantara	16772832	February 28, 2002	Davao City
Motassim A. Al-Ma'ashouq	11873293	February 12, 2002	Makati City
Antonio G. Pelayo	02078824	January 11, 2002	Makati City
Liberador V. Villegas	16128951	March 2, 2002	Parañaque City

Notary Public

Doc. No. _____
Page No. _____
Book No. _____
Series of 2002.