

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, 2002
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 Province, Country or other jurisdiction of incorporation or organization
6. (SEC Use Only) Industry Classification Code:
7. 358 Senator Gil Puyat Avenue, Makati City Address of principal office 1200 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 ₱ 16.7 billion based on the PSE price of P1.78 as of March 31, 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 1995. 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 1997 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.

2002

Marketing

Petron Corporation remained the market leader with a market share of 38.2% relative to the oil majors.

The company now has 1,162 service station outlets, 508 are company-owned and 654 are dealer-owned. It rehabilitated the PEC 1 along the northbound lane of the North Luzon Expressway in Bulacan to augment its facilities and establish non-fuel businesses like the Treats convenience stores and various non-fuel locators such as Jollibee, Starbucks, Pancake House, Chowking and OJ's Grill.

A total of seven new outlets were added to the network of 19 Treats convenience stores and another 9 locators were added to the existing complement of 19.

The Company engaged in the selling of performance chemicals and fuel additives to the industrial sector. It also started to market baseoils.

Two brands of automotive engine oils – **Ultron** for gasoline engines and **Rev-X** for diesel engines – were reformulated to come up with higher-grade products. Each brand represents four different variants designed to meet the needs of different consumers. For Ultron, sub-brands are Race, Rallye, Touring, and Extra. While for Rev-X we have All-Terrain, Trekker, Hauler and HD variants. The products now come in a sleek, modern package design that are more attractive and functional. The 2T lubes were also reformulated for cost efficiency.

In line with the Clean Air Act, Gasul launched "**AutoGasul**", as a cleaner, inexpensive and efficient alternative fuel for automobiles. This is first of its kind in the country. AutoGasul LPG dispensing pump was unveiled on December at the San Gabriel Petron Service Station along C-5, Pasig City.

As part of the Company's environmental advocacy, it set up diesel injection pump calibration centers. A diesel calibration shop is now operational at Jaro Service Station in Imus, Cavite.

The Company also undertook activities to educate the public on illegally refilled LPG tanks. Gasul came up with an ad "*Sa Totoo Lang*" in August so the people would know how to distinguish a genuine Gasul product from an illegally refilled Gasul tank. The new Gasul blue aluminium tamper-proof seal fitted in all 11-kg cylinders was introduced.

The Company implemented the following promotional activities to boost sales and to improve its image:

- “Gas, Cash & Dash” which ran from March 24 until June 15, 2002. The promo highlighted our top fuel brands, namely, Blaze, XCS Plus and DieselMax.
- The Petron-BPI Mastercard was also launched in March. The credit card features address the motorists’ needs.
- “*May K Ang Gasul*” promo utilized Petron employees’ network to generate referrals. This began on February 16 and ended on June 15. This was supplemented by stove promo or the “*Lutong Bahay Deal*”. This started in 2001 and was extended to 2002.
- ArtPetron 2 subtitled “*Lumang Galing, Bagong Sining*” was launched in June 2002. The theme focused on age-old crafts and skills handed down from generation to generation of Filipinos. The winning paintings were used for the Petron calendar.
- Support of the Philippine Taekwondo team for three consecutive years. The team won five bronze medals in different weight categories in the ASEAN Games.
- Development of a motorist publication called “Petron Rover”. It is the first of its kind in the industry and encourages road travel and increase patronage of Petron service stations and what this offers. There were two issues published- one in March and another one in October covering topics like backpacking/camping to tourist destinations, showcasing Petron’s products and services.
- Extending services for its customers like fuel dispensing computerization. Together with Petron Foundation, the Company expanded the *Lakbayanihan* to Oriental Mindoro and Navotas. It conducted POL Management Seminar, Oil Spill and Contingency Planning Seminar and Fire-fighting Seminars.

Refinery

In compliance with the Clean Air Act, the Refinery started producing unleaded gasoline with 35% aromatics and 2% benzene in November 2002. By 2004, an additional 22 MBCD Gas Oil Hydrotreater will be onstream to desulfurize automotive diesel oil down to 0.05% sulfur level.

The Refinery constructed a Solid Waste Handling Facility at the housing compound in compliance with RA 2003 –Ecological Solid Waste Management Act.

To facilitate its existing wastewater plant operations, the Refinery engaged in several activities to improve wastewater effluent.

The Mixed Xylene Plant was modified to improve the Bromine Index of mixed xylene so it will be at par with export standards.

The Thermofor Catalytic Cracking Unit was modified to improve efficiency.

The rehabilitation of the main pier and the caustic neutralization unit is being undertaken.

Among the energy conservation projects implemented was the piping modification of E-2360, which was completed in November 2002. The commissioning of the air pre-

heater of this project provided energy savings. An in-house software was also developed to monitor the real time flaring rate. The refinery is also planning to implement an Energy Efficiency Project which will improve its energy intensity index.

In line with cost efficiency measures being adopted, the Refinery engaged in a Stock Inventory Reduction Program and a Supplier Alliance Program.

The Refinery will embark on an Offsites Automation Project. The target completion of which is 2004.

In the area of community relations, the Refinery continued to support 22 scholars enrolled at the Bataan Polytechnic State College. It rehabilitated and turned over the Alangan Deep Well to the Limay Water District.

Supply and Operations

To improve utilization of our facilities, we signed a joint operating agreement with another entity for our Mandaue terminal in Cebu and LPG plant in Pasig.

Petron exported 8,045 thousand barrels of finished products in 2002. This was higher by 41% than the amount exported the previous year.

Arab crudes accounted for 81% of total crude purchased in 2002, better than 71% in 2001 and increased reliability in the supply chain.

Petron also adopted cost efficiency measures like improving deliveries of products to the terminals in Visayas and Mindanao and integrating planning and operation activities.

Information Technology

Petron upgraded its core Enterprise Resource Planning system last September 2002. SAP is the company's enterprise-wide corporate IT system that serves as the nucleus for its major business processes including purchasing, order and billing, customer credit-checking, inventory management, and financial transaction posting. The upgrade has enabled the Company to support other IT initiatives in the areas of supply chain management, e-commerce and customer relationship management.

In November, the company completed the migration of its IT network infrastructure using the frame relay technology. The frame relay upgrade has been designed so that all bulk plants throughout the country will have direct connection to the frame relay cloud instead of passing through the major nodes in Luzon, Visayas and Mindanao areas. This allows for a more efficient access while eliminating the need for major nodes which are also the usual points of network failure. The frame relay technology also simplifies corporate network interconnection, enabling all plants to connect to our disaster recovery site without incurring huge costs.

Health, Safety and Environment

The Health, Safety and Environment Department engaged the services of DuPont Safety Resources as a consultant in connection with the development and implementation of Petron's corporate health, safety and environmental programs. A HSE Management Committee composed of the President and all the Vice Presidents was created to show the Company's commitment in preserving the environment and in protecting the health and safety of all employees and stakeholders. The Committee conducts a quarterly safety review in different installations of the company.

The following sub-committees, which are headed by the Vice Presidents, were also organized:

- HSE Standards - Vice President for Refinery
- Emergency Preparedness and Audit - Vice President for Operations
- Awards and Incentive and Off-the-job - Vice President for Finance and Subsidiaries.
- Incident Investigation - Vice President for Marketing
- HSE Programs and Oversight - Vice President for Corporate Planning

These sub-committees submit a quarterly safety report to the HSE Committee.

The following were various activities and programs of the company in the area of health, safety and environment:

A. Health

- First Aid Training For Office Employees. This was a 2-day seminar and the topics covered were cardiovascular pulmonary resuscitation, bandaging, emergency transport of patient and other first aid treatment procedures that are applicable to office work.
- The Company conducted pre-employment health examination, periodic physical examination, special monitoring services for those exposed to industrial hazards. Also health advisories are given regularly.

B. Safety

- It conducted an orientation seminar on fire fighting equipment for the fire wardens and floor searchers of Petron MegaPlaza.
- It organized the Basic Safety Training course for supervisors and managers.
- It developed the policies and guidelines with regards to pipelines and UGT selection. This established the criteria for the utilization of double walled or fiberglass coated tank and non-corrodible piping system for various service stations. It also sets the standard guidelines for the use of various tank appurtenances, leak detection facilities in UGT and piping system.
- The personnel of the PEC service station and Refinery employees were trained on fire fighting activities.

- The Refinery declared a total ban on smoking inside the plant premises. In addition to the implementation of the Scaffolds Standards, it developed guidelines on the proper handling, storage and usage of compressed gas cylinders and implementation of proper use of personal protective equipment.
- Various training programs were conducted at the Refinery like Job Safety Analysis for critical activities, safety orientation for new employees and students who are undergoing on the job training and oil spill.
- Contractors were requested to submit Job Safety Analysis prior to execution of their project.
- Fire fighting Olympics were conducted in Gasul and Pandacan Terminal.

C. Environment

- In coordination with the Department of Energy, the Company conducted an oil spill prevention control and response seminar. A similar seminar was conducted at the Refinery
- The Company's 74 Metro Manila dealers completed the Laguna Lake Dev. Authority Pollution Control Officer Training.
- In line with the Company's support for environmental safety, its various depots participated in the clean-up of shores in Iligan City, Zamboanga City, Jimenez, Misamis Occidental and Iloilo City.

Others

- The Environmental Compliance Certificates were issued to 58 company-owned service station.
- Nestle Philippines Inc. awarded the Pandacan Terminal a Plaque of Appreciation under its "Greening the Supply Chain" program, recognizing Petron's commitment to protect the environment.
- The internal insurers (IOI/SCOR/Allianz) surveyors after conducting an audit of the Pandacan Terminal noted the positive safety culture on the site, the very good fire protection equipment available and the excellent emergency response procedures. Similarly, the Earthquake Engineering of Singapore after conducting a risk assessment had a similar observation about the terminal.
- To further increase safety awareness among employees, the HSE Department conducted a slogan and poster-making contest among employees.

Human Resources

The Company undertook initiatives with regard to people management. It streamlined its organization and also implemented a job-posting program. It conducted job and non-job related training programs so employees will be equipped with the competencies needed in their jobs and acquire other skills.

At the Refinery, a cultural transformation program called Survival Thru Excellence Program (S.T.E.P.) was implemented. This is a program aimed at improving the employees' competencies and effectiveness.

Petron Foundation (PFI)

In 2002, the PFI embarked on three new programs. One is *Tulong Aral ng Petron* which gave scholarships to 1,000 indigent children in 90 public elementary schools in Metro Manila. Another program is the Petron School which provided a three-classroom building to the students and teachers of Sta. Cruz Elementary School in Tagoloan, Misamis Oriental. A Skills Training and Education Program (STEP) was also embarked on to provide training to less fortunate youths as Petron's service station attendants. This program was made possible with the assistance of Petron Retail Sales, Retail Training School, Petron Dealers' Association, TESDA and FEJODAP.

The Foundation continued with regular programs like the *Bigkis-Bataan*, Integrated Coastal Management Program and the Bataan Coastal Care Foundation. It has secured the approval of the Bataan Provincial Board for the Bataan Coastal Strategy. It also conducted *Kontra Kalat Sa Dagat* and mangrove enrichment planting. *Bigkis-Bataan* likewise supported the Pawikan Festival in Morong as part of the town's efforts to protect the endangered species. It also initiated and funded several alternative livelihood programs for selected organization on mussel culture, fish consignment and fuel buying centers in the towns of Limay, Morong and Orion.

PFI together with *Sa Aklat Sisikat* Foundation, gave 9,700 grade four pupils from public elementary schools in Marikina City and Nasugbu Batangas the chance to join a special reading program.

Petron employees and their children joined the Habitat for Humanity's Youth Build. They built modest houses in Soldiers' Hills, Muntinlupa. The Foundation also sponsored the building of nine other houses for Youth Build in various locations.

Through its *Lakbayanihan* program, PFI held medical and dental missions in seven cities all over the country.

In connection with its *Lingap Kapwa* project, the Foundation provided relief goods to 250 families affected by flood in July. Its traditional Project Joy program enabled the less privileged children to watch the Modern Kabuki by the Manjushaka Performing Arts Group of Japan.

It donated a TUKLAS center at the Silangan East Elementary School in Maharlika Village in Taguig.

The Foundation has gained the recognition of various groups and has received awards from both local and international bodies. It received the International Association of Business Communicators's Gold Quill Philippines Award of Excellence for Volunteerism in Action, *Kontra Kalat Sa Dagat* and Portraits: Petron's Volunteerism in action. The Public Relations Society of the Philippines gave the Anvil Awards of Excellence for Volunteerism in Action, *Lakbay Alalay* and Nurturing Nature (Celebrating Earth Month/Day and Environment Month/Day 2001) and Anvil Award of Merit for *Kontra Kalat sa Dagat* which also won as one of the ten most outstanding programs in Philippine Governance. This award was shared with the Province of Bataan.

2001

Marketing

Petron 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.

Petron 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 also completed the re-imaging of 11 Metro Manila Dealer Stores.

It added seven 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 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 was 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.

In 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

The company's 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.

Information technology

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.

Others

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. It developed a comprehensive foreign exchange and risk management program.

Petron Foundation, Inc.

Bigay Galing sa Kalikasan ng Bataan (Bigkis-Bataan) drafted on August 20, 2001 the Bataan Declaration, paving the way for the development of the Bataan Coastal Strategy, which seeks to address conflicts in the use of Bataan's marine and coastal resources and 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.

It joined the Earth Network Philippines and Partnerships for Clean Air in the "Walk for Air" at the CCP Complex. It also 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, the Foundation coordinated the planting of 6,000 seedlings in lands for reforestation and 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. Volunteer Petron employees monitored the progress of children in nine schools in Marikina and in four schools in Nasugbu.

As of March 2001, "*Tulong Aral ng Petron*" had already graduated 156 students. It also administers the Petron Engineering Technician Scholarship which supports 135 scholars per school year in the provinces of Cavite, Iloilo and Zamboanga

The Refinery admitted 14 new scholars at the Bataan Polytechnic State College for the school year 2001-2002.

The Foundation thru its *Lakbayanihan* program provided medical and dental missions in Navotas, Metro Manila and in Tagudin, Ilocos Sur. A similar mission was also undertaken in Pandacan.

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"*, volunteers from Petron and its corporate partners attended to 1,740 incidents 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.

In partnership with ABS-CBN, Petron undertook *"Lingap Kapwa"*. 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 for its socio-civic programs in the areas of education, environment, health and social services: an Anvil Award of Excellence for P.R. Programs for its corporate umbrella program, Volunteerism in Action, two Anvil Awards of Merit for P.R. Programs for its environmental awareness program Earth Day/Month Celebration and *Kontra Kalat Sa Dagat*.

2000

Marketing

Fourteen 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 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.

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 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 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 became 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. 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.
- Undertook "*Kontra Kalat Sa Dagat*" on three occasions wherein close to 20 metric tons of garbage were collected along the coastlines of Bataan.
- 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 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.

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, 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.*".

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.

(2) Business of Issuer

(1) 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. Straight-run 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 Trades. Mixed Xylene is another source of export revenues.

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
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%
2002, in million pesos	81,560	10,770	92,330
2002, 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:

In 2002, no new products were introduced but improvements on existing products were made. Ultron, Rev-X and 2T were reformulated. The improved Ultron and Rev-X were relaunched in July. While "AutoGasul was introduced in one service station outlet, the same cannot be considered yet as a new product or service.

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

Competitive Business Conditions

In 2002, the Gross Domestic Product (GDP) grew by 4.6% which is higher than the expected. The growth was largely driven by the services sector that grew by 5.4% from 4.4% in 2001.

Low Oil Demand. While the GDP performance was favorable, growth was not broad based and was mostly posted in non-oil intensive sectors like telecommunications, private services (e.g. medical, education), and electronic components/electrical machinery. Consequently, GDP growth did not translate to strong oil consumption.

For the period January to October (latest from DOE), total oil demand declined by 3% versus the comparative period last year. NPC demand declined by more than half mainly on account of the entry of natural gas. This was partly offset by a 3.5 % growth in non-NPC demand. The increase in LPG, gasoline and diesel demand was mainly driven by consumption spending.

Volatility in Peso-dollar Exchange Rate. From a general strengthening in the early part of 2002, the peso began to steadily depreciate for the rest of the year due to various factors, namely, fiscal deficit overhang, security concerns following bombing incidents, US-Iraq wildcard, and renewed weakening of regional currencies.

The peso breached P53 in mid- October, plunging to a 14-month low, as a reaction to the bombing in Indonesia which was considered the worst terrorist attack since the September 11 in the US. The attack resulted in renewed weakening of regional currencies. Subsequent bombings in Zamboanga and Metro Manila and persistent threats to security have kept the peso weak. These have been aggravated by concerns over the government's fiscal deficit that reached P212.7 billion in 2002, significantly higher than the original target of P130 billion.

Volatility in the exchange rate implies cost uncertainties for Petron, both in terms of operating and capital expenditures.

Volatility of Price of Crude. Similar to the exchange rate, crude prices were highly volatile last year. Dubai averaged \$23.85/barrel in 2002. Higher than the 2001 level of \$22.80/barrel. In the first quarter of 2002, crude prices were relatively low largely due to weak global demand following the effects of the September 11 attacks on the US. Prices, however, started to rise in the second quarter mainly due to renewed tension between the US and Iraq. The "war premium" has kept prices high for the rest of 2002 as traders and consumers became concerned that tensions in the Persian Gulf would disrupt oil supplies.

Increasing Competition. According to DOE, there are presently 70 new corporate entities in the local market engaged in different downstream activities. New players have been very aggressive in extending discounts to customers, thus, putting pressure on margins.

As of December 2002, new players have captured about 14% of the domestic market (Including direct imports by end-users and lubes and greases). New players have substantially gained in the LPG market, capturing about 32% of total sales.

Illegal Trading Practices. Smuggling, illegal refilling of LPG cylinders and illegal trading (e.g. "bote-bote") have adversely affected the market. Notwithstanding Government's measure to address the problem, illegal practices have continued resulting in unfair competition among players.

Increasing Activism of Local Government Units (LGU). The market has also been affected by the increased activism of Local Government Units in zoning and in the imposition of taxes and business fees which has already resulted in a scale down of facilities in Pandacan to address security and safety issues. It is foreseen that similar issues may continue to be raised in areas where oil companies are operating.

Public Perception on Fuel Pricing. The public's understanding of fuel pricing remains limited to recovery of direct costs (e.g. recovery of cost of crude). The public should appreciate that oil companies are commercial entities, that need to obtain a reasonable return on investments to keep them viable over the long-term.

Entry of Natural Gas. Presently, the natural gas downstream sector is composed of three power plants in Batangas with a total capacity of 2,700 MW. These are the Ilijan power plant (1,200 MW), the Sta. Rita (1,000 MW) and San Lorenzo (500) power plants. More power plants are expected to be fueled by natural gas with DOE's program of converting retired oil and coal-fired power plants in Luzon to natural gas.

Apart from the power generation, the Malampaya Natural Gas developers are now laying the blueprint for expanding the market for the gas to the transport, industrial and eventually residential sectors. Related to this, there are ongoing discussions regarding the possible construction of a pipeline that will run through Batangas-Manila-Bataan.

Clustered industries along the pipeline are targeted users of natural gas for their process heat, air conditioning and even power requirements. The airport terminals in Metro Manila and the establishments in the Bonifacio Global City have been identified as possible users of natural gas.

For transport, Metro Manila has been identified (in the Philippine Energy Plan) as a target area where public transport vehicles such as jeepneys, buses and taxis in the area may be converted to run on natural gas.

Competitive Position

Petron's domestic sales registered a decline of 6% over 2001 due to dwindling NPC demand. However, sales to the civil sector increased by 2.9%, which is higher than the industry's growth of 0.2%.

The Retail Trade was affected by influx of low-priced products sold by the new players. The oil majors suffered losses in diesel and unleaded premium gasoline which contributed to the decline in sales of 1.5% compared to 2001 levels. Petron posted a 2.4% decrease in sales which in turn resulted to a drop in our market share from 35.5% in 2001 to 35.2% in 2002.

Shell continued to be the market leader in this area at 38.4% while Caltex' market share is 26.4%.

The Industrial Trade's civil sector performance was better than last year with a 14% increase in sales. Market share increased by 3.4 basis points to 35.1%.

Meanwhile, sales to the National Power Corporation continued to decline registering almost 41% due to reduced dependence on oil-fired power plants for power generation. The single biggest effect was the closure of the Sucat Thermal Power Plant in January 2002.

Gasul retained market leadership in 2002 at 40.4%. There was significant improvement in the LPG retail sector from 48.7% in 2001 to 50.4% in 2002 and in the industrial sector from 43.5% to 45.3%.

Petron's Lubes business, likewise, improved both in the retail and industrial sectors recording growth of 17.7% and 2.2%, respectively.

Methods of Competition

Despite increasing competition, low oil demand and other business challenges, Petron has remained the market leader. It increased its sales thru advertising, sales promos, by providing services to our customers and engaging in image-building activities. The following strategies have also helped increase its profits:

- Petron engaged in non-fuel businesses and in developing non-traditional markets.
- It adopted new business strategies and philosophies like developing the export market and selling fuel related products.
- The Company was able to manage its foreign exchange risks. It also adopted risk management policies and procedures to cover the full range of company operations.
- It implemented measures, such as the Stock Inventory Reduction Program and Supplier Alliance Program at the Refinery, which resulted to improving efficiency and thereby reducing operating costs.

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

The bulk of Petron's crude oil imports was sourced from Saudi Aramco and Petronas.

(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 which comprise about 10% of our 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 (Tradename), 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 renewal of the CBA with PEA-NATU for another three years was signed last March 25, 2003. The CBA with BRUP was renewed for three years effective May 1, 2001 to April 30, 2004.

(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 35% by volume and benzene not exceeding 2% 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 imposition of limits on the aromatics and benzene content of unleaded gasoline, a reduction in the sulfur content of diesel, and stricter emission limits for industrial plants that will impact on fuel oil specifications. The capital investments required to comply with the stringent product specifications are expected to put pressure on Petron's profitability, as the incremental costs could be difficult to recover under the present pricing environment.

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.

The proposed regulation will require substantial investments, particularly service stations, to meet standards on discharges of oily effluent. Similar to the Clean Air Act, however, there is no guarantee that investments will be recovered.

Ecological Solid Waste Management Act (RA 9003) This law last regulates waste handling-from generation, segregation, collection, recycling, transport and disposal. The law's regulations on hazardous waste (those that pose a hazard to the environment when improperly treated, stored, transported, or disposed), solid waste (non-hazardous/non-toxic commercial waste, construction debris), and special waste (hazardous wastes such as lead-acid batteries, oil and tires) will have a direct impact on the company's waste handling procedures and physical waste storage requirements at its offices, bulk plants, terminals, refinery, and service stations.

Moves Toward Relocation of Fuel Depots In Populated Areas. In addition to the proposed relocation of the Pandacan depot, there have been other moves in Congress toward the proposed prohibition of fuel depots in populated areas.

Proposed Pandacan Terminal Relocation. The City Council of Manila, citing concerns of safety, security and health, passed City Ordinance No. 8027 reclassifying the areas occupied by the Oil Terminals of Petron, Shell and Caltex from Industrial to Commercial, making the operation of the Terminals therein unlawful. In order to address the concerns of the City of Manila, Petron, Shell and Caltex entered into an MOU with the Department of Energy and the Mayor of Manila, committing themselves to scale down operations through the reduction of tankage capacities and joint operation of facilities, and the creation of safety buffer and green zones ("Scale Down Program"). Currently, the Oil Companies have been given permits valid until April 2003 in the meantime that the Ordinance is being reviewed by the City Council. In the process of review, the Oil Companies are appealing to the City Council for the amendment of the Ordinance to allow the continued stay of the Terminals in Pandacan with a recognition that the Scale Down Program substantially complies with the spirit of the Ordinance and addresses the concerns of the City.

Possible Mandated Use of Coco Methyl Ester (CME). Government is evaluating the possible mandated use of Coco Methyl Ester (CME) as quality enhancer for diesel and lubricants. The Presidential Adviser for Agricultural Modernization, together with the Philippine Coconut Authority (PCA), has proposed the issuance of an Executive Order requiring oil companies to use coco methyl ester (CME) as enhancer to diesel and lubricants to reduce harmful emissions and establish a new domestic market for the coconut industry.

While PCA broadly noted that various tests on the use of CME have already been conducted, it did not explicitly establish the merits of CME in the following areas: reaction with water, compliance with Worldwide Fuel Charter (WFC) requirements; and compatibility with other fuel additives.

Eco-Diesel Fuel Also Being Evaluated For Commercialization. DOE is also currently evaluating the possible commercialization of the Eco-Diesel fuel which is currently being distributed by the Subic Bay Distribution Inc. (SBDI). The fuel, which is a blend of diesel, water and additive, is claimed to have the capability of lowering emissions and improving fuel economy. Presently, SBDI has a government permit to market the Eco-Diesel to a limited number of bus companies.

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 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.

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 one hundred fifty thousand tons of oil in a year from all ports or terminals in the Philippines to contribute to the International Oil Pollution Compensation Fund (IOPC) in accordance with the provisions of the 1992 Fund Convention.

Oil Spill Prevention and Control. This Bill seeks to require oil companies to install oil spill preventive and control facilities in their tankers and to undertake immediate cleaning operations in the event of oil spill within the country's territorial waters.

(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:

2000	MP 11,800.0
2001	7,513.7
2002	20,428.0

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

The Clean Air Act mandated new specifications for diesel and the total phase out of leaded gasoline. Effective 2001, the sulfur content of industrial grade diesel should be reduced from 0.5% to 0.3% and it should be 0.2% for the automotive grade. Compliance with this law resulted to higher production costs.

The Company has to do the following upgrades so it can 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.

(xiv) Total number of employees

As of December 31, 2002, the company has seven Executives, 693 Managerial, Professional and Technical employees and 498 Rank and File employees or a total of 1,198.

(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 Unit, a Gasoil Hydrotreater Unit, a Gas Oil Desulphurizer Unit, a Sulfur Recovery Unit, a Kerosene Merox Treater, two Naphtha Hydrotreaters, two LPG Treaters, a Kero Hydrosweetener, a Caustic Regeneration Unit, a Solvents Plant, Waste Water Treatment Facilities, seven Steam Generators, five Turbo Generators, Flare and Safety Relieving Facilities, Bulk Asphalt Loading Facilities, several crude storage tanks, as well as several refined petroleum products 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; Mabini, Batangas; Poro Point, San Fernando; Mandaue City; Lapuz, Iloilo City; Bacolod City; Tagoloan, Misamis Oriental; Sasa, Davao City; and Zamboanga City. Its bulk plants and sales offices in Luzon are located in Aparri, Cagayan;; Calapan, Oriental Mindoro; Pasacao, Camarines Sur; Legaspi City, Albay; Puerto Princesa, Palawan;; 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; Linao, Ormoc City; Anibong, Tacloban City; Isabel, Leyte; Tagbilaran City, Bohol; Iligan City; Jimenez, Misamis Occidental; General Santos City; Nasipit, Agusan del Norte and Ipil, Zamboanga del Sur.

As of end 2002, there were 1,162 service station outlets, of which 508 are company-owned and 654 are dealer-owned.

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 2002, 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

Supreme Court

G.R. No. 155683

Date of Filing: December 2, 2002

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. Petron eventually transferred these parcels of land to PNOC 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. The court also ordered all defendants and intervenor Petron to pay exemplary damages and attorney's fees.

All defendants elevated the case to the Court of Appeals. In a Decision dated June 21, 2002, the 14th Division of the Court of Appeals affirmed in toto the Decision of the RTC.

Status: From the adverse Decision of the Court of Appeals, Petron filed the Petition for Review with the Supreme Court' where the case is now pending.

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 the 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. **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. After its 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 without plaintiff-appellee's Brief and to order re-raffle of the case.

4. **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.

5. **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: In April 1998, the BIR demanded from Petron payment of alleged delinquent specific taxes, inclusive of surcharges and interest for the years 1993 to 1997. Protesting the collection inasmuch as its excise tax liabilities had been fully paid through the use of validly issued tax credit certificates, Petron elevated its protest to the Court of Tax appeals (CTA) in July 1998. Two years later in 1999, the CTA set aside the collection 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: The Court of Appeals issued a resolution suspending resolution of the case until the termination of the DOF investigation on the TCCs assigned to Petron.

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

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

Background: PELU complained of ULP acts alleging discrimination for non-implementation of the REAP Program to the Union members. The Union also alleged that the Company had 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 Salary Administration Program consisting of the Merit Pay and the Variable Alternative Pay known as the REAP (Rewarding Excellence through Alternative Pay) which was 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 maintained 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 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 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 ruled that there was 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. On Motion for Reconsideration by the Union, the same was denied for lack of merit.

The Union appealed to the Court of Appeals where the case is pending.

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

National Labor Relations Commission

Date certified for compulsory arbitration: June 26, 2000

Background: In June 2000, the Bataan Refiners Union of the Philippines (BRUP) filed a Notice of Strike citing as grounds ULP 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 February 2002, the NLRC dismissing the complaint of the BRUP ruled that BRUP failed to factually establish that the Company 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 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.

After its Motion for Reconsideration was denied, BRUP filed a Petition for Review with the Court of Appeals. In November 2002, the CA required the BRUP to submit the necessary compliances / amendments to satisfy the substantive deficiencies of the petition. BRUP submitted the required compliances which the CA admitted and

noted. In February 2003, the CA directed the parties to submit their respective memoranda within a period of 30 days from notice.

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

Court of Tax Appeals
CTA Case No. 6136
Date Filed: July 10, 2000

Background: In November 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.

Protesting this assessment, it filed the Petition for Review (with Motion to Stop Collection of Deficiency Excise taxes, surcharges and interest) before the Court of Tax Appeals.

Status: In March 2003, Petron presented the auditor of Punongbayan and Araullo to testify in full length on her audit examination, procedures and findings. Folders of documents for each of the six (6) corporations which were pre-marked as the source of the auditor's summaries. There was no cross-examination made by BIR. The hearing will be resumed on April 23, 2003 at which Petron expect to close its evidence.

9. **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) filed a Petition for Corporate Rehabilitation in July 2001. In its Schedule of Liabilities, AACTC acknowledged Petron as a creditor in the amount of P656,064,583 as of May 31, 2001. In August 2001, the Court issued a Stay Order which mainly stays enforcement of all claims against AACTC.

Status: The members of the present board of AACTC have already given their consent to the quasi reorganization of AACTC. However, ACFC could not yet secure the approval of the SEC inasmuch as this requires the submission of the company's financial statements.

Petron has already provided in the books the corresponding allowance for doubtful accounts of P476 million. In effect, the net book value of Petron's receivables from

ACFC is recorded at P104 million, equivalent to 18 centavos for every peso of unsecured debt.

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

CTA Case No. 6423

Court of Appeals

Background: In January 2002, the BIR issued a tax deficiency assessment against Petron Corporation for the total amount of P739,003,036.32 since the TCCs and TDMS used to pay the excise tax liabilities had been identified as cancelled by the Department of Finance One Stop Shop & Duty Drawback Center.

Status: In April 2002, Petron filed a Petition for Review with a prayer for a TRO with the Court of Tax Appeals where the case is pending. The Court has commissioned an independent CPA to examine, evaluate and audit the voluminous and various documents that Petron intends to present as evidence of its tax payments.

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

The 18 cases filed before the Sandiganbayan Court against former public officials and private individuals including some Petron officials 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. Due to the prolonged delay in submitting the results of the reinvestigation by the Office of the Special Prosecutor, the Sandiganbayan, dismissed these cases. The Court has recently reconsidered this ruling. However, the arraignment of some respondents has been rescheduled several times.

In December 2001, the Special Presidential Task Force 156 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 in connection with TCCs (P131M) issued to Diamond Knitting Corporation. This "Plunder" complaint is related to the aforementioned 18 criminal cases that are pending with the Sandiganbayan. However, the Plunder complaint was "downgraded" by the Ombudsman with the filing of several cases of violation of the Anti-graft Law. 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 charges against the Petron official will be dismissed.

In response to Government demands, the Company has submitted company commercial records and documents deemed relevant to the investigation of other transactions involving the use of TCCs issued to a group of companies.

The Company maintains that it has not been involved in the issuance of these tax credit certificates and that it had relied on the approval by the DOF and the BIR with respect to the issuance, the assignment and the use of these TCCs. The Company and its officers maintain that they have not gained any undue advantage in any of the TCC transactions and for each TCC that was duly assigned and accepted the Company issued an equivalent Company Credit Note that was used to pay for fuel products of the Company.

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
2002				
1 st Quarter	2.06	18-Feb-02	1.46	08-Jan-02
2 nd Quarter	1.92	30-May-02	1.50	29-Apr-02
3 rd Quarter	1.80	02-Jul-02	1.54	26-Sep-02
4 th Quarter	1.64	07-Nov-02	1.34	21-Oct-02
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 27, 2002, was P1.56 per share.

The total number of stockholders as of December 31, 2002 is 201,219.

(2) Holders

List of Top 20 Stockholders As of December 31, 2002

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.	Filipino	601,109,103	6.41
4	PCD Nominee Corp.	Foreign	311,726,842	3.33
5	Francis Solco &/or Francis Bervick Solco	Filipino	28,645,000	0.31
6	Dioceldo S. Sy	Filipino	20,010,000	0.21
7	Home Development Mutual Fund	Filipino	18,830,091	0.20
8	Siao Tick Chong	Filipino	7,500,000	0.08
9	Ansaldo, Godinez & Co. Inc. FAO Mark V. Pangilinan	Filipino	6,500,000	0.07
10	Gilbert Martires	Filipino	5,423,308	0.06
11	Marciano V. Pangilinan	American	5,000,000	0.05
12	Eduardo Lazarte de Guzman	Filipino	4,784,000	0.05
13	Ramon A. Albert	Filipino	4,400,000	0.05
14	Aristeo Lascano Castillo	Filipino	4,145,000	0.04
15	Dr. Shahrads Rahmanifard	Indian	4,000,000	0.04
16	Sim Chi Tat &/or Conching Tan Sim	Filipino	2,900,000	0.03
17	Agaton Lim Tiu	Filipino	2,500,000	0.03
18	Ching Hai Go &/or Martina Go	Filipino	2,500,000	0.03
19	Remington Tiu &/or Agaton Tiu	Filipino	2,500,000	0.03
20	Angel Tan	Filipino	2,500,000	0.03

(3) Dividends

No dividends were issued in 2000 and 2001. The last dividend declared by the Board of Directors was on May 7, 2002. All stockholders on record as of June 6, 2002 were entitled to a 15-centavo per share cash dividend. This was paid out on July 2, 2002 for those shareholders whose shares were lodged with the PCD (under PSE rules) and on July 19, 2002 for the rest of the shareholders.

(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 PNOC, 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.

Financial Condition and Results of Operations

(For convenience, U.S. dollar information in the following discussion has been translated into Philippine pesos at the exchange rate of ₱ 53.254 to US\$1.00, the Philippine peso - U.S. dollar rate as quoted by the Philippine Dealing System as of December 31, 2002.)

Results of Operations

2002 vs. 2001

Petron sustained the recovery it registered in 2001 (coming from a net loss in 2000) by posting a 138% growth in its 2002 profits. As a result of better sales volume and more effective financing for the year 2002, the company posted its highest net income in four years at ₱ 2.9 billion.

Sales volume in 2002 totalled 49.4 million barrels, 4% or 2.0 million barrels better than 2001's 47.4 million barrels. Domestic sales contracted by 6% or 2.5 million barrels but this was more than offset by the hike in both exports and supply sales by 73% or 4.5 million barrels. The significant drop in domestic sales was mainly attributable to reduced oil demand by the National Power Corporation. Despite the reduction in NPC sales, Petron managed to retain its market leadership in 2002.

Sales revenue also grew by 4% or ₱ 3.9 billion from ₱ 88.4 billion to ₱ 92.3 billion while cost of goods sold increased at a lower rate of 3% or ₱ 2.2 billion. As a result of higher selling price and lower cost of sales per liter as well as better sales mix, gross profit rate improved from 8.1% in 2001 to 9.6% in 2002.

Cost discipline was very evident in all areas of operations. Consequently, operating expenses were maintained at ₱ 3.7 billion, slightly lower than 2001.

Another factor for the improved financial performance was lower net non-operating charges. Full year financing charges went down by ₱ 598 million essentially due to lesser interest expense on account of lower interest rates and borrowing levels.

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 foreign exchange 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.

Financial Condition

2002

As of December 31, 2002, Petron's consolidated assets stood at ₱ 50.6 billion with a debt ratio of only 0.63, an improvement from the previous year's 0.66 debt ratio.

Cash and cash equivalents increased by ₱ 980 million as the cash inflows from operating activities of ₱ 6.2 billion exceeded the combined cash outflows of ₱ 5.2 billion under investing and financing activities.

Receivables increased by ₱ 1.2 billion as a result of higher average selling price per liter in December 2002 compared to the average in December 2001.

Other current assets decreased by ₱ 709 million as a result mainly of full utilization of net operating loss carryover.

Investments dropped by ₱ 486 million following collections from financial institutions previously under financial difficulty or receivership.

Other assets were reduced by ₱ 47 million primarily as a result of accumulated business development costs written off in 2002.

Short-term loans dropped by ₱ 6.1 billion as an offshoot of planned actions aimed at reducing financing costs.

Liabilities for crude oil and petroleum product importations rose by ₱ 1.7 billion due to the 38% hike in average crude costs in December 2002 as compared to the December 2001 average.

Accounts payable and accrued expenses dropped by ₱ 546 million as a result of adjustments of various long outstanding provisions and accruals.

Current portion of long-term debt pertained to the US\$ 100 million maturing in September 2003. *(Note: This long-term debt was prepaid on March 24, 2003.)*

Appropriated retained earnings increased by ₱ 939 million on account of the approval by the Board of Directors of the Company's capital program for year 2003.

2001

As of December 31, 2001, Petron's consolidated assets stood at ₱ 50.9 billion, 5% or ₱ 2.6 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 0.66. 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 increased by ₱ 460 million due to higher deferred tax asset associated with net operating loss and minimum corporate income tax in 2001.

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.

Cash Flows

The year 2002 was characterized by robust cash flows. The ₱ 6.2 billion operating cash inflows was the highest on record since 1997.

The company also managed to reduce its short-term loans amounting to ₱ 6.1 billion and pay dividends amounting to ₱ 1.4 billion.

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.

From a general strengthening in the early part of 2002, the peso began to steadily depreciate for the rest of the year. The peso breached P53 in mid-October, plunging to a 14-month low, as a reaction to the bombing in Indonesia, which was considered the worst terrorist attack since the September 11 incident in the US. The attack resulted in renewed weakening of regional currencies. Subsequent bombings in Zamboanga and Metro Manila and persistent threats to security have kept the peso weak.

These have been aggravated by concerns over the government's fiscal deficit. On top of these, pressures also came from market jitters over the US-Iraq tension, and the general weakening in regional currencies particularly the Japanese yen.

The peso slightly appreciated in mid-December due to seasonal remittances from overseas workers but this was temporary.

During the year, Petron employed effective risk mitigation measures to manage the volatility in exchange rate, thus improving the company's earnings as a result of properly managed financing costs.

Financial Condition

Financial Statements (in million)	2002	2001	2000
a) Cash and Cash Equivalents			
Cash in Bank (Peso)	2,788	2,724	2,737
Citibank/PNB (\$)	3	5	516
Marketable Sec. (\$)	2,628	1,710	3,654
Total	5,419	4,439	6,907
b) Accounts Receivable-Others			
Duty Drawback, Tax Credits & other claims	1,332	1,141	1,171
Rec. on Crude swap	6	486	1,011
Borrow and Loan	301	147	71
Unapplied Withholding Taxes/ Tax Certificates	171	77	22
Employees Stock Option	-	-	-
Others	341	583	562
Total	2,151	2,434	2,837
c) Operating Expenses			
Depreciation and Amortization	1,104	1,180	1,147
Employee Costs	921	860	911
Maintenance & Repairs	379	412	384
Purchased Services & Utilities	424	390	424
Materials and office Supplies	245	289	152
Advertising	277	273	277
Provision for doubtful accounts	65	99	70
Taxes and Licenses	111	88	68
Insurance	65	42	28
Entertainment, amusement and representation	13	24	77
Others	96	47	136
Total	3,700	3,704	3,674
d) Other Income/(Charges)			
Interest Income	257	415	780
Interest Expense	(1,068)	(1,823)	(1,860)
Foreign Exchange Gain (Loss)	(200)	112	(578)
Others	(6)	(319)	(796)
Total	(1,017)	(1,615)	(2,454)

Known Trends

Volatility of the peso-dollar exchange rate

The peso-dollar exchange rate remained volatile as it continued to be affected by a host of domestic and international factors. Any volatility in the exchange rate implies cost uncertainties for Petron, both in terms of operating and capital expenses.

Higher crude prices

Except for the relative softening in the months of January and February, the year 2002 was characterized by higher crude prices. Crude cost per barrel averaged \$23.7 in 2002 compared to \$22.8 per barrel in 2001.

Low prices in the first quarter were largely due to weak global demand following the September 11 attacks on the US while the renewed tension between the US and Iraq has been instrumental in the escalation of crude prices beginning March.

Inflation

Domestic inflation remained low largely due to subdued demand-pull pressures. While personal consumption spending was favorable, demand arising from private investments and government spending has been on a decline.

Stable food prices also accounted for low inflation. Government's importation program helped mitigate upward price pressures from low palay production when the El Niño hit the country in the latter part of the year.

While inflation is expected to remain manageable in 2003, it is projected to be higher at about 4.8%. Supply-side factors such as the El Niño weather disturbance, the increase in oil prices, possible increases in transport fares, power rates, and water charges are expected to put pressure on inflation. Mitigating factors, however, would be Government's rice importation program and excess capacity in key production sectors.

Material commitments for capital expenditure

The Board of Directors approved last October 2002 miscellaneous capital budget of P542. 4 million and the funding of the energy efficiency project in the amount of P83.7 million.

(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, 60 years old, has been the full-time Chairman of the Company since July 2001. In July 2002, he was also elected as Chief Executive Officer of the Company. 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, Corp., and Mindanao Petrogas 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, 42 years old, has been the President and Chief Executive Officer of the Company since September 16, 2000. He was the Chief Executive Officer of the Company from September 2000 until July 2002. 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, 72 years old, is a non-executive Director of the Company. He is a member of the Audit Committee. He is also the Chairman of the Social Security Commission and was until recently Presidential Adviser on Legislative Affairs and Head, Presidential Legislative Liaison Office. Director Abes was 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. Atty. Abes 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.

Ziyad M. Al-Shiha, 36 years old, is a member of the Nomination Committee. Prior to his assignment to the Company as Director and the Vice President for Corporate Planning, he was Manager of Saudi Aramco's Uthmaniyah Gas Plant, one of the largest gas plants in the world. His 18 years of experience with Saudi Aramco covered a number of challenging assignments in various areas of operations. He has attended a Control Systems Masters program with Rice University in Houston, Texas. In 1991, Mr. Al-Shiha was assigned a leading proponent role in a multi-million dollar project to produce Arabian Super Light Crude in the central region of Saudi Arabia, from the design through commissioning and start-up phases. Commencing in 1994, and through 2002, he held several engineering and operating positions associated with the projects for doubling the capacity of the Master Gas Program of the Kingdom of Saudi Arabia. During this period he was also involved with critical company Y2K projects. Director Al-Shiha has also worked in the US as the proponent representative leading the design of key hydrocarbon based projects for Saudi Arabia. He has Bachelor of Science degree in Electrical Engineering from King Fahd University for Petroleum and Minerals and a Master Degree in Electrical Engineering from Rice University in Houston, Texas in 1992.

Abdullatif A. Al-Othman, 45 years old, has been a non-executive Director of the Company since June 11, 1999. He is a member of the Board Compensation Committee and of the Audit Committee. 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, 47 years old, is a non-executive Director of the Company. He is currently the Vice-Chairman of the Board and the Chairman of the Management Committee of William Gothong & Aboitiz, Inc. He is the Chairman/CEO of Gothong Southern Inc and likewise of One Wilson Place Holdings, Inc. Since November 2001 until the present, he serves as the Vice Chairman of Philippine Liner Shipping Association. He was just elected Director of the Cebu Chamber of Commerce and Industry and presently chairs the committee on global trade and investments. Mr. Gothong is currently a Director of the International Marine Transport Association (IMTA) of Victoria, B.C. He has maintained active membership with the Chartered Institute of Transport of London, England; the Philippine Chamber of Commerce and Industry; the Cebu Filipino Chinese Chamber of Commerce; the Philippine Inter-island Shipping Association; the Australian-New Zealand Chamber of Commerce (Phils.), Inc.; the Canadian Chamber of Commerce-Manila. Director is a member of the Management Association of the Philippines where he presently chairs the Committee on Inter-department Systems and Procedure Enhancement for the DILG sponsored Anti-red tape Programme for Mandaue City. He is the Chapter President of the Philippine Branch of University of British Columbia Alumni Association. 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, Canada.

Francisco L. Viray, 54 years old, is a non-executive Director of the Company. He is a member of the Board Compensation Committee and of the Nomination Committee. He is currently President of Trans-Asia Power Generation Corporation. Director Viray 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. Director 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.

Jose Luis U. Yulo, Jr., 55 years old, is an independent Director as the term is defined in the Securities Regulation Code. He is the Chairman of the Board Compensation Committee, the Audit Committee and the Nomination Committee. He is currently the Chairman/CEO of Insurance of the Philippine Islands Co., Inc., and Philippine Exhibits and Theme Parks Corporation, President/CEO of One Card International Co., Inc. ("Mastercard" issuer) and Centrex Corporation/Octanorm Philippines, and a Trustee of the Chamber of Commerce of the Philippines Foundation. He is also the Honorary Consul of the Republic of Slovenia to the Philippines and the Chairman of the Philippine-Slovenian Business Council. Mr. Yulo 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 from May 1997 to April 2000. He was also the President/CEO of the Philippine International Trading Corporation, sole trading arm of the Philippine government, and since 1991, he has been the Chairman of the International Association of State Trading Organizations based in Slovenia and Geneva. Director Yulo was a Founding Member of the Asia Pacific Business Advisory Council (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, the country's first Trade Exhibit Hall. He used to be the Secretary General of the ASEAN Chambers 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, 48 years old, is a non-executive Director of the Company since July 2001. He is a member of the Board Compensation Committee. He is currently the Manager of Facilities Planning Department of Saudi Aramco and was a Manager of Abqaiq Plants Maintenance Department. From July 1983 to January 2001, Mr. Al-Faddagh 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, 67 years old, is another independent Director as the term is defined in the Securities Regulation Code. He is a member of the Audit Committee and of the Nomination Committee. 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

Alfred A. Trio, 53 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, 56 years old, has been the Vice President for Supply and Operations since April 15, 2002 and was the Vice President for Marketing from September 16, 2000 to April 14, 2002. 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., 57 years old, has been the Vice President for Marketing since April 15, 2002 and was the Vice President for Supply and Operations from June 1, 2001 to April 14, 2002. 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, 48 years old, has been the Vice President for Finance and Subsidiaries since May 7, 2002 and Controller of the Company since March 19, 2001. His 21-year career in the Company started as an Auditor in July 1981 progressing as PNOOC Administrative Systems Coordinator in August 1987. He was assigned to the PNOOC Energy Companies in October 1988 as Coal/Oil & Gas Accounting Manager. He became PNOOC 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, both in the U.S.A.

Liberador V. Villegas, 58 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 was once a legal counsel of Philippine Airlines. He also taught law at Ateneo de Manila and at the Lyceum of the Philippines. He was a Industrial Relations Manager and later a Personnel 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, 54 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 PNOOC & 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.

(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
Nicasio I. Alcantara	Chairman	
Motassim A. Al-Ma'ashouq	President	
Jose K. Campos, Jr.	Vice President-Marketing	
Alfred A. Trio	Vice President-Refinery	
Ziad S. Al-Labban	Vice President-Corporate Planning January-June 2002	

Ziyad M. Al-Shiha	Vice President- Corporate Planning June-December 2002	
Walter A. Tan	Vice President- Supply and Operations	
Ziad S. Al-Labban	Vice President-Corporate Planning	
Walter A. Tan	Vice President-Marketing (February-December 2001)	
Antonio G. Pelayo	Vice President-Finance & Subsidiaries	
Rosario R. Eijansantos	Treasurer	
Liberador V. Villegas	General Counsel and Corporate Secretary	
Total Top 5 Officers	Aggregate (2000-2002)	130.03
Total Officers & Directors	Aggregate (2000-2002)	199.93

(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 (Filipino)*** G/F MSE Bldg., 6767 Ayala Avenue Makati City	601,109,103 (r)	6.41%

* 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 Superferry Building Port Area 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	Jose Luis U. Yulo, Jr. 19 Don Jesus Blvd. Alabang Hills Muntinlupa, Metro Manila	3,000 (r)	Nil
Common Stock	Rosario R. Eijansantos 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 Limap, 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 in 2002 to the SEC as material information:

1. Funding in the amount of P176.5 million for projects in Marketing and Operations.
2. Award of contracts for two (2) projects at Petron Bataan Refinery estimated at P214.5 million.
3. P2 Billion 5-year Term Loan Agreement with Petron Corporation as Borrower, and Citibank N.A. as Lender was signed last April 11, 2002.
4. Petron Corporation filed last April 2, 2002 a Petition for Review with the Court of Tax Appeals in view of the Warrant of Distrain and/or Levy served by the BIR on Petron for alleged deficiencies, in excise taxes totaling P739,003,036.32, arising from Petron's use of Tax Credit Certificates (TCCs) issued to a group of companies.
5. Election of Mr. Antonio G. Pelayo as Vice President effective May 7, 2002.
6. Election of Mr. Ziyad M. Al-Shiha as Vice President effective May 7, 2002.
7. Holding of Petron's Annual Stockholders' Meeting on July 29, 2002.
8. Setting of June 6, 2002 as the record date for the purpose of determining who the stockholders shall be entitled to notice of, or to vote at the Annual Stockholders Meeting.
9. Creation of a Board Nomination Committee to nominate Board directors.
10. Release of funds in the amount of about P348 million to support its Marketing and Distribution projects.
11. Declaration of cash dividend of P0.15 per share to stockholders of record as of June 6, 2002 for a total amount of about P1,406,250,000.00, payable on July 2, 2002 for shares lodged with the Philippine Central Depository (PCD), pursuant to the rules of PSE and on July 19, 2002 for the shares that are not lodged with the PCD.
12. Approval of the purchase of Petron shares of stocks up to about P2 million to be distributed to Petron's executives, as part of their compensation.
13. Receipt by the Board of the 1st quarter Financial Performance showing a Consolidated Net Income of P652 million.
14. Purchased of a total of 1,036,246 Petron shares.
15. Execution of MOU between the Department of Energy, the City of Manila and the Oil Companies (Petron, Shell & Caltex) to scale down their facilities and operations of Pandacan Terminals through the removal/decommissioning of tanks, establishment of joint operations and the creation of safety and green buffer zones.

16. Approval of the re-appointment of Sycip, Gorres and Velayo as the independent auditor of Petron Corporation for the year 2002.
17. Election of Directors and Executive Officers of Petron Corporation.
18. Appointment of the members to the Compensation Committee and the Audit Committee to the Board.
19. Appointment of Atty. Liberador V. Villegas as General Counsel and as Corporate Governance Compliance Officer.
20. Funding in the amount of P807 million for various projects.
21. Award of a Construction Services Contract.
22. Approval in principle of a corporate governance manual and grant of authority to Management to submit a Petron Corporate Governance Manual to the Securities and Exchange Commission.
23. Endorsement of the MOU signed by Management with the Department of Energy and the City of Manila regarding the Pandacan Terminal Scale Down Program and grant of authority to negotiate with Pilipinas Shell Petroleum Corporation and Caltex Philippines, Inc. the required commercial and operational agreements.
24. Endorsement of the Business Plan for the period 2003-2007.
25. Authorization to Management to consider favorably the discounting proposal of Export and Industry Bank.
26. Acceptance by Management of the assignment of Mr. Wilson Tan as the engagement Partner assigned to Petron Corporation by SGV as its External Auditor
27. Re-affirmation of the Corporation's commitment to Corporate Governance and its role under the Anti-Money Laundering Act. The Board also decided to fund a Refinery Efficiency Improvement Project worth P84 million.

The Company also submitted the following press and photo releases:

28. Press Release dated March 19, 2002 on Petron's P1.22 billion in profits for 2001 and attached an unaudited financial statements for the year ending December 31, 2001
29. Press Release on April 19, 2002 announcing Petron starts phase down of its Pandacan Terminal Operations to address Mayor Atienza's concern on the Terminal's safety and security.

30. Press Release on May 7, 2002 indicating Petron's first quarter net income of P652 million.
31. Press Release on June 16, 2002 announcing that Petron hopes to sign a Memorandum of Understanding with the Manila City government, the Department of Energy and the other two oil companies regarding the scaling down of the operations of the Pandacan Terminal.
32. Press Release on June 20, 2002 on Petron's receipt of the prestigious Public Relations Society of America's (PRSA) 2002 Bronze Anvil Award for its Art Petron competition.
33. Press Release on June 26, 2002 announcing Petron's rollback of P0.35 per liter on its fuel prices.
34. Press Release on July 29, 2002 concerning the President's report to the stockholders during the 8th Annual Stockholders' Meeting on the Company's financial and operating performance for 2001 and the first half of 2002.
35. Press Release last September 18, 2002 announcing the increase in LPG price by P1.00 per kilogram.
36. Press Release last November 8, 2002 regarding the Company's P1.84 B income as of September.
37. Press Release on November 7, 2002 stating the dismantling of three fuel storage tanks in Pandacan to pave the way for the safety and greener buffer zone as part of the scaling down of the Pandacan Terminal.

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 _____, 2003.

By:

NICASIO I. ALCANTARA
Chairman/Chief Executive Officer

MOTASSIM A. AL-MA'ASHOUQ
President

ANTONIO G. PELAYO
VP Finance & Subsidiaries/Controller

LIBERADOR V. VILLEGAS
Corporate Secretary

SUBSCRIBED AND SWORN to before me this_____ day of_____2003 affiant(s) exhibiting to me his/their Community Tax Certificates, as follows:

NAMES	CTC#	DATE OF ISSUE	PLACE OF ISSUE
Nicasio I. Alcantara	16005973	February 27, 2003	Davao City
Motassim A. Al-Ma'ashouq	14436219	February 21, 2003	Makati City
Antonio G. Pelayo	14376358	January 14, 2003	Makati City
Liberador V. Villegas	20233275	March 1, 2003	Parañaque City

Notary Public

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Book No. _____
Series of 2003.