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, 2003

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
Common Stock	9,375,104,497 Shares

………………………………………………………………………………………………
………………………………………………………………………………………………

11. Are any or all of these securities listed on the Philippine Stock Exchange.

Yes [X] No [ ]

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

<u>Philippine Stock Exchange</u>	<u>Common Stocks</u>

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 [X] No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [ ] No [X]

13. The aggregate market value of the voting stock held by non-affiliates of the Registrant is P21.2 billion based on the PSE price of P2.26 as of December 30, 2003**.**

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:

Subsidiaries

New Ventures Realty Corporation (NVRC) is a realty firm established in 1995. The company was then equally owned by Petron and the Retirement Fund. However, in June 2003, Petron increased its share to 79.95%. 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. A wholly owned subsidiary of NVRC, Las Lucas Development Corporation was acquired in July 2003.

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

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

Petron Foundation, Inc. (PFI) was incorporated in July 1996. PFI was created to function and operate as a charitable 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.

Petron Treats Subic, Inc. (PTSI) was incorporated on November 6, 2003. It is a Petron subsidiary empowered to, among others, sell on wholesale or retail fuels such as gasoline, kerosene, diesel, LPG, lubricants and greases as well as operate retail outlets, restaurants, convenience stores and the like. PTSI has its principal office at the Subic Bay Metropolitan Area (SBMA), and will operate Petron's "mega station" at the SBMA. The 3,200 square meter service station, which is expected to be operational by the middle of 2004, will be offering a complete range of fuel products and wash and service bays.

2003

A. Marketing

Petron remained the market leader in 2003. Among the oil majors, it earned a 39.3% share. However if we consider the share of the new players which is 14.1%, our share is 33.8%.

Petron was first among local oil refiners to offer automotive diesel with 0.05% maximum sulfur content. Low-sulfur DieselMax was made available in Metro Manila in November, ahead of the mandated Clean Air Act schedule of January 2004.

In the Industrial trade, the Company was able to acquire new accounts and renewed existing ones on the strength of after-sales service and supply reliability. Because of high product quality, Petron was chosen to refuel Air Force One during the state visit of US President George W. Bush.

For Lube trade, two products were re-launched namely Ultron and 2T engine oils. Ultron, which has four variants-Race, Rallye, Touring and Extra, is used for gasoline engines. The 2T motorcycle engine oils come in two kinds, namely, Powerburn and Autolube. Petron also conducted technical seminars to communicate the strength of its lube products to customers.

The Gasul trade conducted a dealer sales contest in mid-2003 to motivate them to achieve sales targets. This contest will culminate in a dealers convention and celebration of Gasul's 40th year anniversary in 2004. It also actively engaged in public awareness campaigns so illegal refilling and other unlawful practices can be minimized or eliminated.

A new department called Direct Retailing Trade was created to oversee Petron's COCO (company-owned, company-operated) program and its non-fuel businesses (NFB's) which include convenience stores and locators. The passage of the Retail

Trade Liberalization Act allows it to own and operate its own stations. The first COCO station at the EDSA-Dasmarinas site was opened in December.

Petron's Cards Group was strengthened and became part of the Marketing Services Department. This group handles the Petron BPI–Mastercard and Petron Fleet Card. The Petron Fleet Card, which was launched in 2^{nd} quarter, is first and only one of its kind equipped with a microchip and makes monitoring and controlling fleet expenses more convenient.

On the Advertising front, Petron embarked on an SMS-based nationwide sales promo called the "Tank UP N' Text" from August to November. It also sponsored various activities which included different merchandising activities, motor sport competitions featuring Team Petron racers, the Philippine Taekwondo Team and concerts of local and foreign artists. It also held the art competition called ArtPetron for the third straight year with the theme "Lumang Tanawin, Bagong Likhain," which focused on Philippine landscapes.

During 2003, Petron continued to strengthen and expand its nationwide marketing network. Petron's retail stations numbered 1,159 at the end of the year, representing about 30% of the industry's total gasoline station count of 3,899. 10 Treats convenience stores were opened during the year bringing the total to 32, and there are now 27 quick-serve restaurants (QSRs) and service locators. Seven new dealers were added to the Gasul network, bringing the total dealer count to 182. At the end of the year, Petron also had 27 Sales Centers, which distribute specialty products to service stations and lubricants to auto stores, car dealers etc.

A Call Center Master Plan was completed in 2003 that would further improve customer intimacy.

In response to government's mandate to assist the public transport sector, Petron participated in the Department of Energy's (DOE) discounted diesel program for public utility jeepneys. Starting September 1, discounts were given in selected stations in Metro Manila.

B. Refinery

The Refinery implemented different programs which improved operational availability and plant efficiency thus lowering maintenance and repair costs. Its *Continuous Improvement Program* and *Profitability Improvement Program* resulted in better white product recovery and higher production of diesel and LPG.

It also embarked on a *Catalyst Management Program* for the Thermofor Catalytic Cracker (TCC) which increased LPG and TCC gasoline production.

The Refinery also adopted the *Stock Inventory Reduction Program*. The objective of this program is to reduce, by 2005, warehouse inventory to the world class level of 0.5% of refinery replacement value. This covers identification of stocks for deletion and disposal. This program is supported by the Refinery's *Supplier Alliance Program*.

The Offsites Automation Project for refining and efficiency improvement started last year and will be fully operational by the last quarter of 2004.

The Energy Efficiency Project, aimed at improving energy intensity index, is 60% complete.

There is also an on-going organizational transformation program called the *Survival Thru Excellence Program* (STEP) in the Refinery which is geared towards attaining its vision to be Best in Class by 2005. Initiatives implemented to support this include the transition of the Refinery organization into a team-based organization, establishment of an HR department, adoption of a continuous improvement in culture through a Total Quality Management program, and the integration of a goal-setting mechanism in the Performance Management System.

Compliance with environmental regulations has always been one of the Refinery's top priorities:

- Compliance with the Clean Air Act (CAA) - As early as September 2003, the Refinery started the production of diesel with 0.05% sulfur content for Metro Manila's consumption and by early November for the whole country. Also, the construction of an additional 22 MBCD Gas Oil Hydrotreater (GOHT3) started last year. This unit will be used to desulfurize automotive diesel down to 0.05% sulfur level. On the other hand, the procurement and construction of the LVN Isomerization Unit is 25% complete as of the end of the year.

- The Department of Environment and Natural Resources granted the Refinery a permit to operate the Air Pollution Source and Control Installation from July 2003 to June 2004. It also gave the Refinery a one-year permit to operate its housing's sewage treatment plant from July 2003 to June 2004. This wastewater treating plant consistently meets effluent standards.

- Compliance with Clean Water Act - The restoration of the Caustic Neutralization Unit was completed in 2003 and commissioning of the unit was scheduled in January 2004.

- Compliance with Solid Waste Management Act - The construction of Solid Waste Handling Facility at the plant site will be completed in July 2004. The facility will be an upgrade of the existing dumping area to a compartmental segregation site i.e., earthwork, access road, concrete-lined ditch and cyclone wire fence. Waste receptacles will be provided to segregate and contain these solid wastes.

- Environmental Management System (EMS) - The Refinery engaged the services of a contractor for the development, design and implementation of the Refinery's EMS in accordance with ISO 14001. The target certification date of the EMS is September 2004.

C. Supply and Operations

On December, Petron inaugurated its Pandacan Linear Park, which will serve as an additional safety and security buffer zone for residents in the surrounding area.

The establishment of the Linear Parks is among the important commitments made by the three oil companies under a Memorandum of Understanding (MoU) they signed together with the City of Manila and the Department of Energy in 2002. Other commitments under the MoU include the dismantling of 28 product storage tanks and the creation of a joint venture (JV) company that will operate the reduced facilities.

Petron, Shell, and Caltex have finalized discussions on the commercial agreement that would govern the management and operation of the JV company.

To date, the three companies have decommissioned and dismantled 26 out of the 28 tanks committed to be removed under the MoU.

Mandaue bulk plant was certified ISO9001:2000, improved version of ISO9002:1994.

Two new LPG spheres with a capacity of 5 MB and 7.5MB were constructed.

The World Safety Organization (WSO) awarded a certificate of recognition to the Pandacan Terminal for achieving 2.5 million man-hours without lost time injury. With this award, the Pandacan Terminal is nominated to the WSO International Safety Awards to be held in Colorado U.S.A. in 2004.

Pandacan Terminal was also rated by international oil insurers as world-class in terms of safety commitment and culture.

D. Information Technology

The information technology (IT) strategy of Petron Corporation is anchored on a five-point program:

- Streamline internal operations by strengthening the transaction processing capability of the company through business process re-engineering and automation.
- Collaboration aimed at expanding the reach of the company geographically and exploring vertical integration of processes through business-to-business initiatives with vendors and customers.
- Knowledge management that will enable the various groups within the company to interact and exchange information with one another as well as leverage on the intellectual expertise of Petron employees.
- Business development which includes initiatives wherein IT becomes a major contributor to the value of the products and services offered by the company to its customers.
- Business analytics which helps all levels of management in decision-making.

The components of the five-point program complement each other, with business process re-engineering and automation as the encompassing basic strategy.

In 2003, Petron continued its operational streamlining activities. Business analytics at various levels within the company have also been continuously strengthened through the expanded use of the Business Information Warehouse (BW) facility.

E. Corporate Social Responsibility

The Petron Foundation initiated a new program on education in partnership with the United Nations Children's Fund (UNICEF) and the Petron Dealers' Association (PETDA). This program called "Petron for Kids" will use service stations as venues to promote the well-being of children, particularly by instilling safety consciousness among them.

Petron Foundation has been recognized by the Philippine Business for Social Progress, the League of Corporate Foundations, Tri-Sectoral Group on Poverty, Department of Social Welfare and Development, Department of Education and Culture and the Department of Environment and Natural Resources as one of the Leading advocates of corporate social responsibility. It has been the recipient of Gold Quill Awards from the International Association of Business Communicators.

It continued its programs in the areas of education, environment, health and human services.

1. Education:

Petron gave books to public utility drivers for their children in two Makati service stations and in a service station located at Project 3, Quezon City. Book donations were also conducted by two company depots: the Bacolod depot to the Negros Museum and the Tagoloan depot to the Tagoloan Day Care Center.

On its first year anniversary in March 2003, "Tulong Aral ng Petron" saw 925 out of its 1,000 scholars complete the school year. Under this program, other activities such as tutorial lessons, supplemental feeding, storytelling sessions, field trips, livelihood training as well as organizing Parents' Associations and Parent Effectiveness Workshops were undertaken. In August, Petron formalized its Tulong Aral partnership with the Department of Education and Culture.

Under its "Petron School Program", it built three classrooms at Vicente Hizon Elementary School in Davao City and two in Looc Elementary School in Lamitan, Basilan.

The Skills Training and Education Program (STEP) was re-launched. This is a customized manpower development program for Petron service station employees and their children, and for public utility drivers and their children. This is jointly undertaken by the Foundation, Petron Retail Sales, Retail Training School, Petron Dealers' Association(PETDA), Technical Education and Skills Development Authority (TESDA), Federation of Jeepney Operators and Drivers' Association of the Philippines (FEJODAP) and Alliance of Transport Operators and Drivers' Association of the Philippines (ALTODAP). STEP offers a step-by-step training approach that is done on the job at selected Petron service stations and at the training center at the Marikina Institute of Science and Technology. Students' tuition and training supplies are free. In addition, meal and transportation allowance is given to participants of training programs.

Under its "Sa Aklat Sisikat", reading literacy program, Petron Foundation has helped monitor the reading development of 1,600 Grade 4 students in six elementary schools in Makati. About 2,100 books were distributed to the schools and 30 teachers were given special training.

The Refinery also accommodated 800 students for on–the-job training, the Department of Labor and Employment's Special Program for Employment of Students, and for Refinery plant tours.

A Trust Fund was likewise put up to support the scholarship program of nine employees for the energy sector. These students will take up their Masters on Public Management at the Development Academy of the Philippines.

2. Environment:

Aside from its Kontra Kalat sa Dagat program and tree/mangrove planting activities held in different locations, the Foundation sponsored the Sining Para sa Kalikasan arts workshop for 50 schoolchildren during the Earth Day celebration.

Kontra Kalat sa Dagat and tree/mangrove planting were conducted in Bataan, Navotas, Mandaue, Iloilo, Bacolod, Amlan, Jimenez, Zamboanga, Tacloban, Isabel, Tagbilaran, Nasipit, Roxas and General Santos.

3. Health:

Through Petron's Lakbayanihan Program, about 4,670 patients in Pandacan and Navotas were given free medical and dental treatment as well as medicines.

The Refinery also conducted two medical-dental missions in Barangay Alangan, Bataan.

F. Human Resources

The thrust of the HR programs was to align the employees' competencies and values with the desired organizational capabilities, values and business directions.

Thus, in-house training programs were refocused to the disciplines of business-mindedness, technical competencies and managing interfaces with customers. Employees were provided insights and business perspectives by inviting executives of successful companies to share their success stories on strategic leadership, customer relations management, corporate responsibility and commitment to excellence. There were also initiatives on creating a harmonious work environment like conducting Labor Management Relations Workshops for rank-and-file and management employees.

The Code of Conduct and Ethical Business Policy and the Company Rules and Regulations on Discipline were revised in support of instilling **good governance** in every employee.

G. Health, Safety and Environment

The Health Safety and Environment (HSE) Management Committee conducted quarterly safety reviews and a thorough check-up of the facilities in different installations of the company.

The HSE Audit Team conducted safety inspections in 18 depots to assess compliance with established company safety policies and standards. A safety assessment was also conducted at the Refinery and other depots to identify the gaps in the facilities' existing equipment set-up, procedures and programs vis-a-vis applicable foreign and local standards, and to evaluate the facilities' capabilities to mitigate safety-related risks including fire, oil spills, hazardous materials release, personnel injury and occupational illnesses. Furthermore, compliance with various environmental laws was assessed in five depots.

Different training programs on basic safety were conducted. Petron also conducted Oil Spill Control, Petroleum Safety and LPG Handling seminars for its customers.

A Health, Safety and Environment Manual was developed. In the Refinery, the Employee Safety Handbook was updated. This contains emergency procedures on fire and oil spill, work permit system, scaffold standards, compressed gas cylinder handling and the personal protective equipment matrix.

The Company also installed safety devices like topside foam delivery systems and undertank leak detection and subgrade protection for tanks. Additional water tanks and fire pumps were installed in some depots.

2002

A. Marketing

Petron remained the market leader with a market share of 38.2% relative to the oil majors. Considering the total industry, the Company's market share was about 33%.

The company had 1,162 service station outlets, 508 were company-owned and 654 were dealer-owned. It rehabilitated the service station 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 improved performance and cost efficiency.

In line with the Clean Air Act, Gasul launched "**AutoGasul**", as a cleaner, less expensive and efficient alternative fuel for automobiles. AutoGasul LPG dispensing pump was unveiled in December at the Petron Service Station along C-5, Pasig City.

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 until June 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.
- The 2nd Annual ArtPetron Competition 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. In 2002 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 tourism, and promotes patronage of Petron service stations and products. There were two issues published, in April and December covering topics like backpacking/camping to tourist destinations, and showcasing Petron's products and services.

- Extending services for its customers like fuel dispensing computerization. It conducted POL Management Seminar, Oil Spill and Contingency Planning Seminar and Fire-fighting Seminars for various customers.

B. Refinery

In compliance with the Clean Air Act, the Refinery started supplying 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 is working on the conversion of ISO9002:1994 system to ISO9001:2000 standard.

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

To keep its existing wastewater plant operating efficiently, the Refinery engaged in several activities to ensure its wastewater effluent qualities meet regulatory limits.

The Thermofor Catalytic Cracking Unit was modified to improve efficiency and operating reliability.

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

Among the energy conservation projects implemented was the piping modification of the air preheater E-2360, which was completed in November 2002. The commissioning of this air pre-heater provided energy savings. A software was also developed in-house to monitor real time flaring rate. The Refinery implemented an Energy Efficiency Project which will improve its energy intensity index.

In line with cost efficiency measures being adopted, the Refinery engaged in Materials Inventory Reduction Program thru Supplier Alliances, disposal of excess and obsolete materials and efficient materials management. The Refinery also implemented 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 and provided support to the operation of the Limay Community Medical Center. It also actively participated in the Bataan Coastal Care activities.

C. Supply and Operations

To improve utilization of its facilities pursuant to the Oil Deregulation Law, Petron signed a joint operating agreement with another entity for its Mandaue terminal in Cebu and its LPG plant in Pasig**.**

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

Saudi Aramco crudes accounted for 81% of total crude purchased in 2002, better than 71% in 2001 and increased the 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.

In June 2002, Petron, along with its industry counterparts (Shell and Caltex), signed a Memorandum of Understanding (MOU) with the City of Manila and the Department of Energy to scale down the Pandacan Terminal to address the perceived risks at the facility while ensuring a reliable and efficient supply of petroleum products to Metro Manila and surrounding provinces. The MOU called for the dismantling of a total of 28 storage tanks at the facility, the creation of a green buffer zone to enhance the safety and security at the site, and the establishment of joint operations. As of December, roughly 50% of the work needed to scale down the terminal has been completed.

D. 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 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.

E. Corporate Social Responsibility

In 2002, Petron Foundation Inc. (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.

It continued with their 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. PFI 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 consignation 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, it 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.

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

The Petron Foundation received awards from both local and international bodies. It received the International Association of Business Communicators’ 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.

F. 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.

G. 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 headed by the President and composed of 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:

1. 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 were given regularly.

2. 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 regard 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 required to submit Job Safety Analysis prior to execution of their project.
- Fire fighting Olympics were conducted in Gasul and Pandacan Terminal.

3. <u>Environment</u>

- 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.

4. <u>Others</u>

- The Environmental Compliance Certificates were issued to 58 company-owned service stations.
- 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.

2001

A. 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 added seven lube 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.

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.

B. 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 actively participated in the Bataan Area Productivity Council. This was 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.

C. 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 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.

D. 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.

E. Corporate Social Responsibility

"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, 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 planted 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” 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 were 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”.

F. 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.

(2) Business of Issuer

(a) Description of Registrant

(i) Principal products or services and their markets:

Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products, mainly for the domestic market. It supplies more than one-third of the country's petroleum product requirements. It sells a full range of refined petroleum products, including: industrial fuel oil, low sulfur diesel, premium and regular gasoline, liquefied petroleum gas (LPG), aviation turbo fuel, kerosene, asphalt, butane, pitch, and two grades of solvent. 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**
2001, in million pesos	81,880	6,547	88,427
2001, in percent	93%	7%	100%
2002, in million pesos	81,560	10,770	92,330
2002, in percent	88%	12%	100%
2003, in million pesos	96,472	14,265	110,737
2003, in percent	87%	13%	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. Sale Centers are also established to sell these products.

In the LPG trade, Petron has a nationwide network of retail dealerships and outlets. To guarantee customer's convenience in purchasing Gasul and accessories, retail outlets are usually situated in the vicinity or service stations. Also, we have "Tawag Lang Centers" which the customers can call to place their orders and these centers will ask the dealer nearest the residence or location of the customer to deliver the product.

(iv) New products or services:

LS Diesel Max- In line with the effectivity of new diesel fuel specifications in the Clear Air Act, Petron introduced LS Diesel Max, a low sulphur (0.05%), technologically advanced diesel fuel. It contains a robust multifunctional additive and a unique smoke reducing agent that has the ability to provide superior performance and protection. It also contains a lubricity enhancer that protects diesel injection pumps from wear while maintaining its superior performance.

2T Enviro (Low Smoke 2t Oil)- This product reduces smoke emissions in 2-stroke motorcycles. It also protects the piston and other parts of the engine.

Sprint 4T (4T Oil)- The new 4T Oil was developed to meet the increasing demand in 4-stroke motorcycles. The strict emissions requirement of the Clean Air Act has resulted to a significant increase in the number of 4-stroke motorcycles used in tricycles, due to difficulty of 2-stroke motorcycles in meeting the standards.

2T Powerburn and 2T Autolube- The quality levels of these 2T products were upgraded to improve their engine and emissions performance. These products now meet the requirements of JASO FB in the new Philippine National Standards (PNS) for 2T oils.

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

A. Competitive Business Conditions

The Gross Domestic Product (GDP) in 2003 grew by 4.5%, slightly higher than the GDP growth in 2002 of 4.4%. The growth was attributed to continued strength in the services sector because of the high demand for wireless communication devices and the recovery in the agriculture industry. On the other hand, the more oil-intensive industry sector posted a slowdown with a growth of only 3.0%. This is lower than the 3.7% growth in the previous year largely because of a steep decline in construction.

Low Oil Demand. Based on the latest figures from the Department of Energy, the oil demand from January to December 2003 was 115.8 million barrels compared to last year's 116.7 million barrels or a decrease of 0.7%. Diesel and fuel oil which collectively comprise about 60% of total demand declined by 3.2% and 3.3%, respectively, adversely affected by weakness in some industry sectors. The decline was partially offset by an increase in demand for LPG, gasoline, kerosene which was mainly driven by consumer spending.

Peso-Dollar Exchange Rate. The peso-dollar rate averaged P54.22 in 2003 versus P51.58 in 2002. It plunged to P55.85 in November. Aside from economic factors such as the fiscal deficit, credit rating downgrades, and deceleration of export revenues which was very prominent during the first half of the year, the exchange rate was largely sentiment-driven, reacting to non-economic factors such as repeated destabilization threats to the Government, spate of bombings and kidnappings and political issues. With the increasing political concerns prior to the May election, greater volatility of the peso-dollar exchange rate is expected in the coming months**.**

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

Price of Crude. Crude prices continued to increase in 2003 due to various factors such as the US-Iraq war, delays in the resumption of Iraqi oil exports and OPEC's production cuts. The average international spot price of Asian Dubai crude increased to $26.75 in 2003 from $23.85 in 2002.

Low levels of crude inventories particularly in the US, higher oil demand with global recovery and further OPEC cuts (one million barrels per day cut effective April 2004) are expected to keep prices high in 2004.

Growing Industry Competition. With deregulation, competition in the industry has become borderless with product imports coming into the market at the same tariff as crude, i.e., no preferential duty for refiners. The closure of Caltex' refinery in the latter part of 2003 and its conversion to a product import terminal confirms the magnitude of pressure in the industry. The closure of Caltex' refinery would put further pressure on the efficiencies of remaining asset-heavy refiners like Petron.

In addition, based on data from the Department of Energy (DOE), new players (including direct imports by end-users) have more than tripled their share since they entered the market, i.e., from 3.4% in 1997 to about 14% last year. New players' have substantially gained a foothold of the LPG market as a group, capturing about 38% of total sales. They have also cornered about 15% of diesel and 8% of gasoline sales last year. New players have been very aggressive in extending discounts to customers, thus, putting pressure on margins.

Activism of Local Government Units (LGU). The activism of local government units, similar to the move to close down the oil terminals in Pandacan, could set a precedent for local governments and/or residents in other bulk plant locations. After almost two years of negotiating with Pandacan's municipal officials, the oil majors were allowed to continue operating in the area on the condition that they scale down and consolidate their depot operations. The scale down started in 2003 with the dismantling of a number of storage tanks.

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.

B. Competitive Position

Petron's market share for 2003 was 39.3% while Shell and Caltex had 38.6% and 22.1%, respectively. In comparison with the 2002 figures, Petron (38.2%) and Shell's (37%) market share increased while Caltex' share (24.8%) decreased.

Including the market share of the new oil players which is 14.1%, Petron's share of the pie is 33.8%. The remainder is divided between Shell and Caltex with 33.2% and 18.9%, respectively.

In Retail, Petron's sales grew by 5.4% due to a stronger retail network. Shell grew only by 0.5% but has remained the market leader in this trade. Caltex, on the other hand, suffered a volume decline by 3.5%, resulting into a lower market share of 1.2 percentage points.

Total industry performance for the Industrial Civil sector was down by 4.3% largely because of Caltex' 20.0% sales decline. In contrast, Shell registered a 2 percentage points increase in sales while Petron had 0.8%.

Sales to NPC continued its downtrend at 3.4%. This is a slight improvement compared to last year's 41%. The non-operation of a number of accounts was mitigated by gains from the increased operations of other plants due to coal shortage and increased power demand.

The market share of Gasul in 2003 was 41.6%, thus, retaining its market leadership.

Petron's Lubes business expanded in 2003, in contrast to Shell's decrease in sales by 15.0% and Caltex by 1.9%. Despite our gaining 2.4 percentage points in market share, Shell has retained its market leadership in this business.

C. Methods of Competition

Aside from the two major oil companies, namely, Shell and Caltex, Petron competitors include the new players who have garnered over 14% of the market.

Historical data shows that Petron has effectively gained and protected its market leadership in the industry. It has the strengths in terms of organization, technology, assets, resources and infrastructure. It has continuously developed or adopted initiatives that will improve operational efficiencies; manage costs and risks; maximize utilization of its assets and opportunities like tapping new markets, engaging in new businesses etc.

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

The bulk of Petron's crude purchases was sourced from Saudi Aramco in accordance with the Crude Oil Supply Agreement. It also imported two types of crudes, Tapis and Miri, from Malaysia.

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

The National Power Corporation (NPC) sales accounts for about 12% of Petron's total sales volume.

(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 depots, terminals and many service stations are located. Majority of the insurance policies of Petron for 2003 were placed with Petrogen Insurance Corporation. In 2003, Petron purchased 91% of its crude 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, Petrocyl 680, Printsol 600, Overglide, Grease Away, Petrokut, Petron Railroad Extra, Rubbex, Petron Dust Stop Oil.

b. Petron has pending applications for registration of the following trademarks: Ultron, Oil Improver, Lubritop, Antimist, Oil Saver, Power Booster, Grease Solve, Zerflo, Process Oils, Petron XD, TDH 50, 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, 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, Petromul CSS-1, With XCS, Ultron Extra, Clean 'n Shine, Sprint 4T, Xpert Diesel Oils, Ultimate Release from Engine Stress, Xpert sa Makina Express ang Kita, It's Oil You Need, Pchem, Petrocare, Penetrating Oil, Gas Saver, Super Coolant, Brake and Clutch, Lakbay-Alalay.

c. Petron has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and 2 flames, 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 0.05% by weight with a cetane number of not less than 50; (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 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). In compliance with the fuel standards of the law, Petron embarked on the following major investments: Gasoil Hydrotreater and Isomerization Unit. 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 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. It seeks to enforce tighter regulations on effluents affecting water bodies or margins of any surface water.

Compliance with the proposed regulation will require additional investments in service stations particularly in drainage systems to meet the standards on discharges of oily effluents. Similar to the Clean Air Act, however, there is no guarantee that investments will be recovered.

Government's thrusts toward alternative fuels

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

  Apart from power generation, the natural gas market will be expanded to the transport, industrial (e.g. district cooling systems) and residential sectors. Government targets public transport vehicles in Metro Manila as initial users of natural gas. It is looking into restricting access of buses that do not run on CNG in major thoroughfares in the metropolis.

  The planned expanded use of natural gas will partially displace oil demand.

- Coco-Methyl Ester (CME). Government is currently studying a proposal to mandate the use of a coco-methyl ester as an additive to diesel. If approved, it would entail additional investments as oil companies' current storage and blending facilities cannot be used for the storage and handling of CME.

(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:

2001	P 4.3 million
2002	20.9 million
2003	10.2 million

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

To comply with the Clean Air Act, the Company is spending approximately P1.9 billion for its Isomerization Unit. This facility will enable the production of unleaded gasoline with maximum 35 volume % aromatics and 2% benzene. Petron is also investing P3.3 billion for a Gas Oil Hydrotreater for the production of diesel with sulphur content of 0.05%.

Compliance with this law will result to higher production costs.

The scaling down of the Pandacan operation is on-going and will cost about P197 million. This mainly covers the dismantling of the some tanks and Petron's share in the consolidation of fuel storage facilities of the three oil companies.

(xiv)Total number of employees:

As of December 31, 2003, the company has seven Executives, 730 Managerial, Professional and Technical employees, and 475 Rank and File employees or a total of 1,212.

(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 barrels per day. It has three Crude Distillation Units, a Vacuum Pipestill, a Thermofor 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 BPD 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, La Union; 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; 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-2003, there were 1,159 service station outlets, 32 convenience stores and 27 lube centers.

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 2003, Petron was involved in certain litigation some of which are material as this term is understood under the law. These are:

1. **Petron Corporation v. Commissioner of Internal Revenue and BIR Regional Director of Makati, Region 8**
   Court of Tax Appeals
   CTA Case No. 5657
   Date Filed: July 7, 1998

Commissioner of Internal Revenue v. Petron Corporation
Court of Appeals
CA-G.R. SP No. 55330
Date Filed: 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.

2. **Petron Corporation v. Mayor Tobias Tiangco**
Supreme Court, 2nd Division
G.R. No. 15881
Date Filed: July 17, 2003

Petron Corporation v. Mayor Tobias M. Tiangco and Muncipal Treasurer Manuel T. Enriquez
RTC-Malabon
Civil Case No. 3380-MN
Date Filed: May 20, 2002

Background: On March 4, 2002, the Municipality of Navotas assessed Petron the amount of P10,204,916.17 as business tax on the sale of diesel fuel at Petron depot at the Navotas Fishport. Petron questioned the assessment in an action for Cancellation of Assessment of Deficiency Taxes before the Regional Trial Court of Malabon. The RTC rendred its Decision dated 5 May 2003 dismissing Petron's complaint and ordering Petron to pay the business tax assessed.

On July 17, 2003, Petron filed a petition for review with the Supreme Court with a prayer for a temporary restraining order.

Relief Sought: Reversal of the RTC decision and the cancellation of the questioned assessment of the Municipality of Navotas.

Status: The Supreme Court issued a TRO against the Mayor and Municipal Treasurer of Navotas on August 6, 2003 which enjoined the latter from closing Petron's

Navotas oil depot. On Decemer 8, 2003, the Supreme Court gave due course to the petition and ordered the parties to submit their respective memoranda within 30 days from notice.

3. **Petron Corporation v. City Council of Manila, et al.**
Regional Trial Court of Malabon
Case No. 03-106379
Date Filed: April 25, 2003

Background: 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. Simultaneous with efforts to address the concerns oif the City Council with the implementation of a Scale Down Program to reduce tankage capacities and joint operation of facilities with Shell and Caltex, Petron filed this petition to annul City Ordinance No. 8027 and enjoin the City Council of Manila, as well as Mayor Joselito Atienza from implementing the same.

Relief Sought: Nullification of Ordinance No. 8027

Status: On May 15, 2003, the RTC, upon agreement of the parties, issued a status quo order which prevents the respondents from enforcing the Ordinance until further orders of the Court or termination of the case. On January 12, 2004, the Court dismissed the petition without prejudice for apparent lack of interest on the part of the petitioner. Petron has filed a motion for reconsideration of the Order of dismissal.

4. **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: Petron has finished presenting its rebuttal evidence and the case is now submitted for decision.

5. **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
Date Filed: July 16, 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. Thereafter, the Court rendered its Decision dated November 6, 2002, approved the Modified Rehabilitation Plan of AACTC, which has been renamed Advent Capital and Finance Corporation, and directed the Rehabilitation Receiver to monitor the implementation of the plan.

Status: The quasi reorganization of Advent Capital which paved the way for the reduction in shares of existing stockholders to 35% and the assumption by creditors of 65% of shareholdings has been effected. A new Board of Directors and a new set of corporate officers have been elected. Deeds of Assignment have been signed by creditors, including Petron, to effect the conversion of debt to equity.

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.

6. **Petron Corporation vs. Commissioner of Internal Revenue**
CTA Case No. 6423
Court of Tax Appeals
Date Filed: April 2002

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.

In April 2002, Petron filed a Petition for Review with a prayer for a TRO with the Court of Tax Appeals.

Status: Petron has finished presenting its evidence while the CIR has commenced presenting its evidence.

7. **People of the Philippines v. Antonio P. Belicena, et al.**
Criminal Cases Nos. 25922 to 25939
Sandiganbayan
Date Filed: April 6, 2000

Background: In eighteen (18) cases, former Petron officials are charged for having allegedly conspired with former 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 about P 614.7 million 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 on August 20, 2001, dismissed these cases. However, on February 2, 2002, the Sandiganbayan set aside the dismissal. The accused filed their Motion for Reconsideration.

Status: On December 12, 2003, the Sandiganbayan denied the accused's Motion for Reconsideration.

8. **People of the Philippines v. Antonio P. Belicena, et al.**
Criminal Cases Nos. 27654-27736 (OMB 0-11-0973)
4th Division of the Sandiganbayan
Date Filed: August 2002

Background: A former Petron officer is charged for having allegedly conspired with former 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 TCCs fraudulently issued to Diamond Knitting Corporation.

Status: The arraignment scheduled on March 6, 2003 was deferred until further notice. The cases are under reinvestigation and no court process relating to the reinvestigation has been received to date.

9. **Special Presidential Task Force 156 v. Antonio P. Belicena, et al.**
OMB-C-C-03-0236-D
Office of the Ombudsman
Date Filed: March 18, 2003

Background: This is a criminal complaint against a former Petron officer who was charged with conspiring with the Department of Finance One-Stop-Shop Inter-Agency Tax Credit & Duty Drawback Center and the owners and officers of Filstar Textile Industrial Corporation in committing plunder, violation of Anti-Grant and Corrupt Practices Law and Estafa.

Status: The counter-affidavit of the Petron officer was filed on June 16, 2003.

10. **Special Presidential Task Force 156 v.**
Antonio P. Belicena, et al.
OMB-C-C-03-0546-J
Office of the Ombudsman
Date Filed: June 11, 2003

Background: This is a criminal complaint against some officers and employees of Petron who were charged with conspiring with the Department of Finance One-Stop-Shop Inter-Agency Tax Credit & Duty Drawback Center and the owners and officers of Allstar Spinning, Inc. in committing plunder, violation of Anti-Grant and Corrupt Practices Law and Estafa.

Status: The counter-affidavits of Petron's officers and employees were filed last December 2003 and a reply-affidavit from the complainant had already been filed.

11. **Special Presidential Task Force 156 v.**
Antonio P. Belicena, et al.
OMB-C-C-03-0735-L
Office of the Ombudsman
Date Filed: September 30, 2003

Background: This is a criminal complaint against some officers and employees of Petron who were charged with conspiring with the Department of Finance One-Stop-Shop Inter-Agency Tax Credit & Duty Drawback Center and the owners and officers of New Alliance Thread Co., Inc. in committing plunder, violation of Anti-Grant and Corrupt Practices Law, Estafa and violation of PD 1829.

Status: The Complaint-Affidavit was received by most of the Petron officers on February 2, 2004.

TCC-Related Cases

In the TCC-related criminal cases, Petron officials are uniformly charged or accused of having conspired with former 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 and thereafter, by using these TCCs in payment of taxes. The Petron officers had acted on or signed the Deeds of Assignment in official capacities. The Company continues to express its full confidence in the integrity of its officers and employees, former or current. The Company therefore expects that the charges against these Petron officers and employees will be dismissed.

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.

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.

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:

	Highest Close		Lowest Close	
Period	**Price**	**Date**	**Price**	**Date**
2003				
1st Quarter	1.78	27-Mar-03	1.54	02,06,07-09-Jan-03
2nd Quarter	2.18	16-Apr-03	1.78	02-June-03
3rd Quarter	2.32	17-Jul-03	1.88	29-Aug-03
4th Quarter	2.32	23-Dec-03	1.98	01-Oct-03
2002				
1st Quarter	2.06	18-Feb-02	1.46	08-Jan-02
2nd Quarter	1.92	30-May-02	1.50	29-Apr-02
3rd Quarter	1.80	02-Jul-02	1.54	26-Sept-02
4th Quarter	1.64	07-Dec-02	1.34	21-Oct-02

Price as of last trading day of the year, December 30, 2003, was P2.26 per share.

The total number of stockholders as of December 31, 2003 is 199,659.

(2) Holders

List of Top 20 Stockholders
As of December 31, 2003

Rank	Name	Nationality	No. of shares	%
1	Philippine National Oil Company	Filipino	3,750,000,006	40.00
2	Aramco Overseas Company B.V.	Netherlands	3,750,000,004	40.00
3	PCD Nominee Corp.	Filipino	591,797,272	6.31
4	PCD Nominee Corp.	Foreign	367,879,961	3.92
5	Dioceldo S. Sy	Filipino	20,010,000	0.21
6	Home Development Mutual Fund	Filipino	18,830,091	0.20
7	Ansaldo, Godinez & Co. Inc. FAO Mark V. Pangilinan	Filipino	7,550,000	0.08
8	Siao Tick Chong	Filipino	7,500,000	0.08
9	Eduardo Lazarte de Guzman	Filipino	6,000,000	0.06
10	Dr. Shahrad Rahmanifard	Iranian	5,669,000	0.06
11	First Metro Investment Corp.	Filipino	5,358,000	0.06
12	Marciano V. Pangilinan	American	5,000,000	0.05
13	Aristeo Lascano Castillo	Filipino	4,145,000	0.04
14	Ramon A. Albert	Filipino	3,500,000	0.04
15	Sim Chi Tat &/or Conching Tan Sim	Filipino	2,900,000	0.03
16	Agaton Lim Tiu	Filipino	2,500,000	0.03
17	Ching Hai Go &/or Martina Go	Filipino	2,500,000	0.03
18	Remington Tiu &/or Agaton Tiu	Filipino	2,500,000	0.03
19	Angel Tan	Filipino	2,500,000	0.03
20	Antonio S. Araneta Jr.	Filipino	2,450,000	0.03

(3) Dividends

The Board of Directors declared a cash dividend in the amount of P0.15 per share on May 7, 2002. All stockholders on record as of June 6, 2002 were entitled to the dividend. This was paid out on July 2, 2002 for shareholders whose shares were lodged with the PCD under PSE rules and on July 19, 2002 for the rest of the shareholders. Another cash dividend was declared by the Directors on May 6, 2003. The amount is P0.20 per share and stockholders on record as of May 29, 2003 were given dividends. The payment date for shareholders whose shares were lodged with PCD was June 25, 2003 and July 11, 2003 for other 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 billion, 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 ₱ 55.586 to US$1.00, the Philippine peso - U.S. dollar rate as quoted by the Philippine Dealing System as of December 31, 2003.)

Results of Operations

2003 vs. 2002

Petron posted a net income of ₱ 3.1 billion in 2003, 7% or ₱ 194 million higher than the ₱ 2.9 billion income recorded in 2002. This was brought about by better gross margin by ₱ 522 million, decrease in operating expenses by ₱ 178 million and lower provision for income tax by ₱ 229 million. However, non-operating charges increased by ₱ 735 million.

Sales volume for the year reached 49,791 MB, slightly surpassing last year's 49,440 MB by 1% or 351 MB. Increase in domestic sales (by 721 MB) and exports (by 231 MB) was partly reduced by the drop in supply sales (by 601 MB). The growth in domestic sales was attributable to Retail trade's opening of 30 new outlets and re-imaging/rehabilitation of some service stations, increased sales thru retail distributors, and participation in the DOE's discounted diesel fuel program. These offset the effect of reduction in sales to NPC, Philippine Government and US military accounts.

Year-to-date net sales of **P 110.7 billion** exceeded last year's level by **20%** or **P 18.4 billion** as a result of an 18% or P 2.24 increase in average selling price per liter from last year's P 11.75 plus the 1% improvement in volume.

Cost of goods sold likewise increased by 21% or an average of ₱ 2.18/liter due to higher duty-paid landed cost of crude processed in 2003 versus 2002 aggravated by higher importation cost of finished products.

Improvement in gross margin was further complemented by lower operating expenses (from ₱ 3.7 billion to ₱ 3.5 billion) as the company continued to practice cost discipline in all aspects of its operations.

Better operating income was overshadowed by increase in non-operating charges as a result of the rise in interest expense on account of higher interest rates and borrowing levels, plus the imposition of VAT. This resulted to lower income before tax by ₱ 35 million compared with last year.

Provision for income tax was trimmed down by ₱ 229 million largely on account of higher margins on sales of Mixed Xylene, a product presently enjoying a tax holiday.

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 totaled 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 forex losses accounted for the turnaround.

Sales volume for the year 2001 totaled 47.4 million barrels, 8% or 4.4 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 ₱ 2.4 billion. The improvement was largely due to foreign exchange gains reported this year in contrast to foreign exchange losses in 2000.

Financial Condition

2003

As of December 31, 2003, Petron’s consolidated assets stood at ₱ 51.8 billion, 2% or ₱ 1.2 billion higher than the ₱ 50.6 billion of 2002. Petron’s debt ratio was reduced from 0.63 as of December 31, 2002 to only 0.52 which was attributable to the early settlement of the NORD loan in March 2003.

Cash and cash equivalents dropped to ₱ 2.8 billion from ₱ 5.4 billion registered in 2002. The 48% decrease in the level of cash was largely attributable to the growth in inventories by ₱ 4.2 billion which consumed the cash inflows from operating activities.

Reduction in allowance for market decline due to market recovery accounted for the ₱ 12 million or 21% increase in short-term investments.

Inventories increased to ₱ 15.7 billion from ₱ 11.5 billion as a result of higher volume for both finished products and crude oil accompanied by increase in cost per barrel. Finished products stood at 4.1 million barrels, 100 thousand barrels above previous year’s level of 4.0 million barrels while crude oil increased by 479 thousand barrels.

Deferred income tax and other current assets diminished by ₱ 331 million or 19% as a result mainly of full utilization of excess Minimum Corporate Income Tax (MCIT) in 2003.

Other noncurrect assets were reduced by ₱ 15 million or 16% primarily on account of the write-off of certain pre-operating expenses.

Escalation in short-term loans by ₱ 3.3 billion or 27% pertains to unsecured peso loans obtained from banks to finance importation of crude and petroleum products. All outstanding short-term loans are denominated in pesos, thus reducing forex risks.

Liabilities for crude oil and petroleum product importations rose by ₱ 1.8 billion or 38% due mainly to higher volume as well as crude cost in 2003.

Decline in current portion of long-term debt by ₱ 4.6 billion or 87% was solely attributable to the prepayment of the NORD loan in March 2003.

Decrease in non-current liabilities by ₱ 564 million was largely attributable to the current portion of long-term loans obtained from Citibank and Landbank that will mature in 2004.

Increase in retained earnings-unappropriated by ₱ 1.2 billion pertained to the ₱ 3.1 billion earnings for the period ended December 2003 less dividends declared of ₱ 1.9 billion.

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 the 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.

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

2003

For the year 2003, Petron registered a positive ₱ 2.9 billion operating cash flows, lower than the ₱ 6.2 billion posted during the same period last year. High level of inventories compounded by payment of interests associated with the settlement of short-term loans resulted to the deterioration in cash inflows during the period.

2002

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.

2001

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

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.

The Peso-Dollar rate averaged ₱54.22 in 2003 versus ₱51.58 in 2002. In addition to economic factors such as the fiscal deficit, credit rating downgrades, and deceleration of export revenues (most prominent in the first half of the year), the exchange rate was largely sentiment-driven, reacting to non-economic factors such as repeated destabilization threats to Government, spate of bombings and kidnappings, and political issues in the run up to the elections. The peso plunged to a record trading low of ₱55.85 last November 27 following actor FPJ's announcement that he would run for president.

With increasing political concerns prior to the May elections, greater volatility is expected in the coming months.

Financial Condition

Financial Statements (in million)	2003	2002	2001
a) Cash and Cash Equivalents			
Cash in Bank (Peso)	2,467	2,788	2,724
Citibank/PNB ($)	55	3	5
Marketable Sec. ($)	281	2,628	1,710
Total	2,803	5,419	4,439
b) Accounts Receivable-Others			
Duty Drawback, Tax Credits & other claims	1,068	1,332	1,141
Rec. on Crude swap	76	6	486
Borrow and Loan	177	301	147
Unapplied Withholding Taxes/			
Tax Certificates	165	171	77
Employees Stock Option	-	-	-

Others	191	341	583
Total	1,677	2,151	2,434
c) Operating Expenses			
Depreciation and Amortization	924	1,104	1,180
Employee Costs	979	921	860
Maintenance & Repairs	467	379	412
Purchased Services & Utilities	422	424	390
Materials and office Supplies	46	245	289
Advertising	227	277	273
Provision for doubtful accounts/accounts written-off	199	65	99
Taxes and Licenses	197	111	88
Insurance	47	65	42
Entertainment, amusement and representation	14	13	24
Others	-	96	47
Total	3,522	3,700	3,704
d) Other Income/(Charges)			
Interest Income	235	257	415
Interest Expense	(1,493)	(1,068)	(1,823)
Foreign Exchange Gain (Loss)	(16)	(200)	112
Others	(478)	(6)	(319)
Total	(1,752)	(1,017)	(1,615)

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

Crude prices continued to increase in 2003, driven by various factors such as the US-Iraq war, delays in the resumption of Iraqi oil exports, OPEC’s production cuts. The average international spot price of Asian Dubai crude increased to $26.75 in 2003, from $23.85 in 2002.

Low levels of crude inventories particularly in the US, higher oil demand with global recovery, and further OPEC cuts (one million barrels per day cut effective April 1) are expected to keep prices high in 2004.

Inflation

Domestic inflation is expected to come in strongly in 2004. Inflation rate in January was 4.1%, higher than the 3.9% registered in December mainly due to higher food prices. Higher inflation is expected in the coming months largely due to election spending. Government's target for 2004 is between 4% to 5%.

While continued volatility in the exchange rate have a bearing on expectations on future prices, the spillover impact of exchange rate movements may be partly mitigated by unused productive capacity as indicated by soft labor market conditions (unemployment rate of about 11% in 2003), and moderate capacity utilization in key production sectors (average manufacturing capacity utilization was about 78% in 2003). Unemployment and underutilized manufacturing capacity could partially cushion inflationary pressures.

Material commitments for capital expenditure

In addition to the investments appropriated for the Isomerization Unit, Gas Oil Hydrotreater and the Pandacan scaledown project as mentioned in the section on Cost and Effects of Compliance with Environmental Laws, Petron Corporation will spend P83.7 million for the enhancement of the energy utilization in the Refinery. This involves the revamp of one of the Atmospheric Pipestill units in the Refinery to reduce furnace energy consumption.

(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

Described below are the business experiences of the Company's Directors and Executive Officers for the past five (5) years.

(1) Directors

Nicasio I. Alcantara, 61 years old, is the Chairman and Chief Executive Officer of Petron Corporation since July 2001. Before his election to the Board of Petron Corporation in July 2001, he was Chairman and/or President of various corporations of the Alcantara Group of Companies, such as Alsing 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. Mr. Alcantara is presently a Director of Bancasia Finance & Investment Corporation, United Pulp & Paper Corporation, Philodrill Corporation and Bank One Savings & Trust Corporation. He also serves as a member of the Boards of Trustees of the Philippine Institute of Petroleum (PIP), the Philippine Business for Social Progress (PBSP) and the Junior Achievers of the Philippines (JAPI). He earned his Business Administration degree from the Ateneo de Manila University and his Masters degree in Business Administration from Sta. Clara University, California.

Khalid D. Al-Faddagh, 48 years old, has been a Director since July 2001 and the President of the Company since July 29, 2003. Mr. Al-Faddagh has more than 20 years experience in the oil industry and held various professional and management positions in Saudi Aramco. This included assignment with Central Engineering, Refining and Oil production facilities and in the United States working with two major equipment suppliers. His most recent position before joining Petron was managing the Facilities Planning Department with prime responsibility in scooping and evaluating the economics of Saudi Aramco's capital plans. He has a Doctorate Degree in Mechanical Engineering from the Imperial College, London University and attended several executive programs including a recent one at Harvard Business School.

Motassim A. Al-Ma'ashouq, 42 years old, is a Director since September 2000. He also served as a Director from 1996 to 1999 when he became the Vice President of Petron's Corporate Planning Division. Mr. Al-Ma'ashouq was the Company's President and Chief Executive Officer from September 2000 until July 2002. After briefly serving in the Corporate Planning Organization of Saudi Aramco in August 1999, he assumed the position of President and Chief Executive Officer of the Saudi Arabian Lubricating Oil Company in October 1999. Between 1991 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 first 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, 73 years old, is a non-executive Director of the Company since July 2001. 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, 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, 37 years old, is a member of the Nomination Committee. Prior to his assignment to Petron as Director and the Vice President for Corporate Planning in July 2002, 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 at 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.

Khalid G. Al-Buainain, 45 years old, is a non-executive Director of the Company since July 29, 2003. He is currently the Vice-President for Refining since June 2003. Prior to his appointment, from June 2001 to May 2003, he served as Vice President of Medical Services. From May 1999 to May 2001, he was in charge of Saudi Aramco Affairs, first as Executive Director and later as Vice President. During this time, he also spent three months acting as Executive Director of Yanbu Refining. Prior to this, he was President of SASREF from September 1997 to May 1999, and Manager of Marketing Services for SPL in Tokyo. He has held several professional and managerial positions within Saudi Aramco including Manager, Oil Supply, Planning and Scheduling; Manager, Terminal Operations; and General Supervisor of Gas Supply and Distribution. He is currently the Chairman of Luberef and a member of the Saudi Aramco Executive Advisory Committee. He has a Bachelor of Science degree in Mechanical Engineering from the University of Petroleum and Minerals and attended the Executive Program at the Harvard Business School in 1999.

Bob D. Gothong, 48 years old, is a non-executive Director of the Company since November 2001. He is currently the Vice-Chairman of the Board and the Chairman of the Management Committee of Aboitiz Transportation System. He is the Chairman/CEO of Gothong Southern, Inc. and Vice Chairman of Carlos A. Gothong Holdings, Inc. Since November 2001 until the present, he serves as the Vice Chairman of Philippine Liner Shipping Association. He was elected as 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 Interferry – 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 Gothong 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, 55 years old, is a non-executive Director of the Company since July 2001. 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., 56 years old, is an independent Director since July 2001. 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.

Douhan H. Al-Douhan, 68 years old, is an independent Director since July 2001. He is a member of the Audit Committee and of the Nomination Committee. He was a retired Executive Director of Management Services Organization and former assistant secretary to the board of directors of Saudi Aramco on December 31, 1995. 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, 54 years old, has been the Vice President for Refinery Division since December 1, 1999. Prior to his appointment as Vice President, he was the Manager of the Reseller group. Since 1987, he has held various managerial positions in Marketing and Refining Divisions. He has been with the Company for 33 years. He has a Bachelor of Science degree in Chemical Engineering.

Walter A. Tan, 57 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 managerial 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., 58 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 33 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. 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, University of Virginia and the American Graduate School of International Management (Thunderbird), all in the U.S.A.

Rosario R. Eijansantos, 55 years old, was appointed Treasurer of the Company last May 8, 2001 after being named Manager of Treasurers Department effective April 2001 to the present. She's been with the Company for 32 years and has had several stints in varying assignments in Internal Audit, Financial, Corporate and Petroleum Accounting from December 1971 to September 1996. In October 1996, she assumed the position of Internal Audit Manager and later became the Human Resource Manager in January 1999 until March 2001. She has a Bachelor of Science in Commerce degree major in Accounting from the Far Eastern University and is a Certified Public Accountant.

Luis A. Maglaya, 50 years old, has been the Corporate Secretary of the Company since July 28, 2003. He is also the Corporate Secretary of Petron subsidiaries namely, Petron Foundation, Inc., Petrogen Insurance Corp., New Ventures Realty Corporation, Petron Treats Subic, Inc. and Petron Marketing Corporation. He has been with the Company for 21 years and assumed various assignments in Petroleum Law Dept., Labor Law Dept., and Tax and Corporate Services Dept. from 1983 to 1993. He held the position of Legal Counsel and Assistant Corporate Secretary from 1994 to 2003. Before he joined Petron he was connected with the law firm of Tanjuatco Oreta Tanjuatco and Factoran and worked with the National Housing Authority. He earned his Bachelor of Arts degree in Political Science from Ateneo de Manila University in 1975. He Obtained his law degree from the University of the Philippines in 1980.

(2) Family Relationships - None

(3) Involvement in Certain Legal Proceedings - The current directors and executive officers are not involved in legal proceedings as defined in Annex C of Rule 12.

(B) Executive Compensation

(1) Executive Compensation

Standard Arrangements. 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. They also receive whatever mid-year gratuity pay the Board extends to the managerial, supervisory and technical employees of the Company.

The members of the Board of Directors who are not Executive Officers are elected for a term of one year. They likewise receive remuneration for 12 months in Director's fees, in addition to compensation on a per meeting participation.

The aggregate compensation paid or incurred during the last two fiscal years are as follows:

(2) Summary Compensation Table

<u>Compensation of Officers and Directors</u>

Compensation of Directors and Executive Officers

(In Million Pesos)

Name	Year	Salary	Bonus	Total
Chief Executive Officer and Senior Executive Officers	2003	P49.7	P15.1	P64.8
	2002	P46.6	P9.8	P56.4
Total Compensation of Officers & Directors	2003	P56.7	P16.6	P73.3
	2002	P53.3	P10.4	P63.7

(C) Security Ownership of Certain Beneficial Owners and Management as of December 31, 2003.

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	591,797,272 (r)	6.31%

* 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	Nicasio I. Alcantara No. 1 Tamarind Road Forbes Park, Makati City	1,238,704 (b) 1(r)	0.013%

Common Stock	Khalid D. Al-Faddagh Petron MegaPlaza 358 Sen. Gil Puyat Avenue Makati City	1 (r)	Nil
Common Stock	Ziyad M. Al-Shiha 17-A North Tower Bonifacio Global City Taguig, Metro Manila	148,303 (b) 1 (r)	Nil
Common Stock	Bernardino R. Abes 5 Magsaysay st. Xavierville III Loyola Heights, Quezon City	1 (r)	Nil
Common Stock	Khalid G. Al-Buainain Saudi Arabian Oil Co. Dhahran, 31311 Saudi Arabia	1 (r)	Nil
Common Stock	Francisco L. Viray Lot 7, Blk 7 Sydney St. Vista Real Classica Diliman, Quezon City	1 (r)	Nil
Common Stock	Bob D. Gothong Gothong Compound One Wilson Street Lahug, Cebu City	2,813 (b) 1 (r)	Nil
Common Stock	Motassim A. Al-Maashouq P.O. Box 9457 Saudi Arabian Oil Co. Dhahran 31311 Saudi Arabia	1 (r)	Nil
Common Stock	Douhan H. Al-Douhan P.O. Box 1740 Dhahran, Saudi Arabia	1,000 (b)	Nil
Common Stock	Jose Luis U. Yulo, Jr. 19 Don Jesus Blvd Alabang Hills Muntinlupa, Metro Manila	3,000 (b)	Nil
Common Stock	Walter A. Tan No. 34 Seoul Street, B.F. Homes Las Piñas City, Metro Manila	481,692 (b)	Nil
Common Stock	Alfred A. Trio 32 PBR Housing Limay, Bataan	562,167 (b)	Nil
Common Stock	Jose K. Campos, Jr. No. 24 King Fisher St., Green Meadows Ugong Norte, Quezon City	1,433,275 (b)	0.015%

Common Stock	Antonio G. Pelayo 7085-A Champaca St. Guadalupe Viejo, Makati City	158,668 (b)	Nil
Common Stock	Rosario R. Eijansantos 128 Moscow cor. Canberra Street Green Park Vill, Manggahan, Pasig City	235,689 (b)	Nil
Common Stock	Luis A. Maglaya 15-D Park Avenue Townhomes 20th Avenue, Cubao, Quezon City	68,550 (b)	Nil

As of December 31, 2003, the total number of shares owned by the Directors and officers is 4,333,873.

(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.

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 2003 to the SEC as material information:

1. Amendment of Article III of Petron's By-Laws by adding Section 3-A on the Nomination and Election of Independent Directors.
2. Appointment of the Board Nomination Committee.
3. Guidelines and Screening Policies and Parameters for the Nomination and Election of Independent Directors.
4. Funding in the amount of US$94.4 million or P5,119 million for various projects.
5. Award of Contracts for its Energy Efficiency Project and for its Offsites Automation Project.
6. Emergency shutdown of the APS-2 process block at the Petron Bataan Refinery.
7. Holding of Petron's Annual Stockholders' Meeting on July 28, 2003.
8. Setting of May 29, 2003 as the record date for the purpose of determining who the stockholders shall be entitled to notice and to attend the Annual Stockholders' Meeting.
9. Funding in the amount of P106.7 million for various projects.
10. Award of Contract for its Profit Improvement Project.
11. Declaration of a cash dividend of P0.20 per share to stockholders of record of the Corporation as of the close of trading hours on May 29, 2003 for a total amount of about P1.875 billion, payable within periods required by the SEC and by the PSE.
12. 2003 Financial Performance Report for 1st quarter showing a Consolidated Net Income of P445 million.
13. Re-appointment of Sycip, Gorres and Velayo as the independent auditor of Petron Corporation for the year 2003.
14. Election of Directors and Executive Officers of Petron Corporation.
15. Appointment of the members to the Compensation Committee, Audit Committee and Nomination Committee of the Board.
16. Funding in the amount of P218.3 Million for various projects.
17. Approval of the amendments to the corporate governance manual and grant of authority to Management to submit the self-rating assessment of Petron Corporation (SEC Memorandum Circular No. 5) to the Securities and Exchange Commission.
18. Signing of the contracts for the Engineering, Procurement and Construction (EPC) of the Gas Oil Hydrotreater No. 3 and LVN Isomerization Unit projects between Petron Corporation and a consortium of Stone and Webster International, Inc. and CTCI Corporation in the amount of US$49,173,970.00 plus P767,273,000.00.
19. Extension of Lease Contract with PFDA re: Navotas Depot.
20. Award of Engineering, Procurement and Construction (EPC) contract to JGC Philippines re: Terminal Integration Pandacan Scale Down Project.
21. Endorsement of the 2004-2008 Business Plan and 2004 Capital Program.
22. 2004 Operating Plan and Budget
23. Funding in the amount of P695 million for various major and miscellaneous projects.
24. Creation of Direct Retailing Subsidiary in Subic.
25. Restructuring of SAP software portfolio.
26. Purchase award of CCR Catalyst for Refinery.
27. Submission of Petron Board meetings attendees for the year 2003.

28. Petron's Bataan Refinery shut down its gas oil hydrotreater (GOHT-1) facility in the afternoon of December 27, 2003 due to the leak at the unit's hot separator vapor and cold separator liquid heat exchanger. Repair is expected to be completed by December 30, 2003.
29. Petron's gas oil hydrotreater (GOHT-1) facility at its Bataan Refinery is now back in operation after completion of repairs and tests.

The Company also submitted the following press and photo releases:

30. Press Release dated March 31, 2003 on Petron's 2002 net income of P P2.9 billion.

31. Press Release on May 7, 2003 entitled "Petron Posts P445 M 1st Quarter 2003 Income".

32. Press Release on July 28, 2003 reporting that we held our Annual Stockholders' Meeting wherein Petron's financial performance for the first half was discussed. It stated that the Company's net income for the first half of the year was P1.28 billion.

33. Press Release on October 9, 2003 announcing the signing of the contracts for the Engineering, Procurement and Construction (EPC) of the Gas Oil Hydrotreater No. 3 and LVN Isomerization Unit Projects between Petron Corporation and a consortium of Stone and Webster International, Inc. and CTCI Corporation.

34. Press Release on October 21, 2003 stating that Petron Corporation held its quarterly board meeting and that its year to date September income was P2.02 billion.

35. Press Release dated November 15, 2003 entitled "Exports and Operating Efficiencies Bring Up Petron Income to P2.02-B Ytd-Sept".

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 ____________________, 2004.

By:

NICASIO I. ALCANTARA
Chairman/Chief Executive Officer

KHALID D. AL-FADDAGH
President

ANTONIO G. PELAYO
VP Finance & Subsidiaries/Controller

LUIS A. MAGLAYA
Corporate Secretary

APR 12 2004

SUBSCRIBED AND SWORN to before me this_____ day of______2004 affiant(s) exhibiting to me his/their Community Tax Certificates, as follows:

NAMES	CTC#	DATE OF ISSUE	PLACE OF ISSUE
Nicasio I. Alcantara	15222414	February 04, 2004	Makati City
Khalid D. Al-Faddagh	15244505	February 19, 2004	Makati City
Antonio G. Pelayo	15175756	January 12, 2004	Makati City
Luis A. Maglaya	00995578	March 22, 2004	Quezon City

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MAKATI CITY

____
Notary Public

JOHN ... ENCARNACION

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