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Unlocking Potential

People, Brand, Asset & Infrastructure

Petron is a company gearing up for higher performance. By harnessing the strength of its people, assets, infrastructure and brands, Petron has achieved operating efficiencies, improved reliability and created new market opportunities to unlock more value for its customers and stakeholders within the framework of sound corporate governance.
Petron Corporation is the Philippines’ largest oil refining and marketing company, supplying more than one-third of the country’s oil requirements. Its ISO 9002-certified refinery, located in Limay, Bataan, has a capacity of 180 thousand barrels per day. The refinery processes crude oil into a full range of petroleum products, including LPG, gasoline, diesel, jet fuel, kerosene, industrial fuel oil, lubes and greases, and asphalts. Petron distributes products to a nationwide network of bulk plants and terminals. Through this network, it sells fuel oil, diesel, and LPG to industrial customers. It also supplies jet fuel at key airports to airlines, including Philippine Airlines and other international and domestic carriers.

Petron retails gasoline, diesel, and kerosene to motorists, public transport operators, and households through more than a thousand service stations, and sells its LPG brand to consumers through a dealership network. Petron-branded lubes, greases, tires, batteries and accessories are also sold through service stations. In recent years, the company has introduced its own brand of convenience store, called “Treats.”

Since 1994, Petron has been jointly owned by the Philippine National Oil Company and the Aramco Overseas Company, each having a 40% share of equity. The remaining 20% is owned by about 200,000 individual stockholders and a number of institutional investors.
Mission Statement

We are a petroleum-based business enterprise in pursuit of growth and opportunities that are in the best interests of our shareholders.

We are committed to excellence in meeting customers’ expectations and in caring for our community and environment.

We shall conduct ourselves with professionalism, integrity and fairness.
Message to our STOCKHOLDERS

We knew that the only way to improve performance was to squeeze more value out of our assets and resources. We engaged in intense analysis to redefine our business model and our strategic objectives. We raised the bar on operating efficiencies and internal discipline, and keenly sought opportunities to create value for our customers and stakeholders.
DEAR STOCKHOLDER:

FIRST, THE RESULTS

Your company is very pleased to report a strong business performance for 2002.

In an industry that saw a drop of 3.3% in local sales, we sold 49.4 million barrels of petroleum products, 4.2% more than in the previous year. Higher export volumes and significantly improved sales to commercial or industrial accounts compensated for lower sales to the power sector, which continued its shift to alternative energy sources. Net of this sector's fuel purchases, the growth in Petron's domestic sales outpaced the comparable growth for total industry, enabling us to remain the market leader with a share of 33%.

Revenues grew by 4.4% to ₱92.3 billion, boosting our gross profit rate to nearly 10%, compared to 8.1% in 2001. Combined with a slight drop in operating expenses, and a 37% reduction in non-operating charges, this gave us a net income of ₱2.9 billion or nearly one-and-a-half times the 2001 level of ₱1.2 billion.

This was no mean feat. The business environment continued to be very challenging. The domestic oil market remained in a slump that started in 1998; crude prices were volatile; and new players offered intense competition as they tried to carve a bigger niche in a limited market.

We knew that the only way to improve performance was to squeeze more value out of our assets and resources. We engaged in intense analysis to redefine our business model and our strategic objectives. We raised the bar on operating efficiencies and internal discipline, and keenly sought opportunities to create value for our customers and stakeholders.

It is this set of attention to the internal processes and consequent decisions that laid the groundwork for our strong performance.

BUSINESS IMPERATIVES

The challenges that we faced last year called for a sharp departure from the business-as-usual mode. To achieve this, we took a critical look at two fundamental aspects of our business: internal processes and customer intimacy.

We adopted three key approaches. The first was to constantly challenge our people, already adept at managing crises and change, to find new ways to create value for the company. The second was the rigorous use of information technology, making it a vital tool for value generation. The third was the use of key performance indicators to measure the effectiveness of our operating disciplines.

Today, we can speak not just of a lean and flexible organization, or one that is empowered by progressive development, compensation, and career programs, but also one that is forward-looking and positioned for accomplishment.

We have in place an IT architecture that connects the entire supply chain and brings the company closer to its business partners and customers — reinforcing our commitment to be a more responsive company.

Our key performance indicators define value created and value lost. With these, we hold our people responsible for decisions made not only on individual goals, but also on corporate programs and objectives, including sound governance and business ethics.

INITIATIVES AND ACCOMPLISHMENTS

These approaches have advanced our parallel objectives: internally, improving operational efficiencies and managing costs; externally, tapping new markets and maximizing opportunities for the company's assets and brands.

Brand Development and Market Growth. In spite of the local market shrinking in 2002 by 3.3%, Petron's sales expanded:

• Sales to the Industrial sector grew by 14%, well ahead of total industry sales growth of 3.5%
• Gasoline sales grew by 4.2% or nearly at par with industry growth despite aggressive moves of new players
• Lubricant sales grew by 11% although industry sales growth was only 4.9%

Tapping New Markets. On top of marketing initiatives, we developed a
Message to our STOCKHOLDERS

We believe that our critical and analytical approach to the business creates a robust platform for performance that is focused on processes and the customer, and one that is based on serious insight, shared responsibility, and seamless cooperation.

niche in the international market for fuel oil. Our crude mix gives us an edge in the market for straight-run fuel oil (SRFO), and we took full advantage of this. Our SRFO exports contributed 12% to our revenues for 2002.

Maximizing Asset Utilization. The export of SRFO benefited Petron in another way, improving Petron’s refinery utilization rate during the year. In another development, we raised the operating efficiency of two of our key facilities as we opened them for joint use with other companies.

Risk Management. The drive for discipline included financial management processes to minimize our exposure to volatile financial and non-financial risks. We instituted a risk management structure, paying special attention to foreign exchange risk, which has a major impact on our financial performance.

Our insurance subsidiaries continued to manage Petron’s non-financial risks, and brought income to the company as well. Petrogen Insurance Corporation (Petrogen), a local insurance company, and Overseas Ventures Insurance Corporation (OVINCOR), a Bermuda-based reinsurance company, have generated a combined income of P498 million since they began operating in 1996 and 1997, respectively.

CORPORATE GOVERNANCE REPORT

Petron’s corporate governance policy is underpinned by Petron’s commitment to a strong ethical business culture. Ultimately, the standard by which the company would want performance excellence to be measured is in the ethical conduct of its business.

Human Resource Development. The development and well-being of human resources is crucial within the company’s governance policy. Petron ensures that every employee is equipped with all the tools and skills that support efficiency and productivity on the job. Moreover, Petron’s compensation program promotes ownership and accountability, resulting to a strong, shared sense of responsibility for company performance.

Health, Safety & Environment (HSE). Another component of Petron’s corporate governance structure is a proactive HSE Policy, the framework of which is now established. Our commitment to HSE is underscored by the fact that the President of the
company heads the committee and HSE efforts. HSE in Petron is highly structured, permeates strategic planning and operating processes, and is fundamental to investment decisions.

- **Clean Air Act.** While we continue to import finished products to comply with the CAA, we have opted to upgrade our refinery by investing in major facilities, namely, an Isomerization Unit and a Gasoil Hydrotreater. These strategic investments will make Petron’s refinery the only one in the country capable of producing CAA-compliant fuels.

- **The Pandacan Terminal Scaledown Project.** Perceived security and safety threats following September 11 prompted the Manila city government to call for the closure of Petron’s Pandacan Terminal as well as the adjacent depots belonging to the other oil refiners. Although an independent and reputable risk management confirmed that the facilities exceed international safety and security standards, Petron and the other oil companies entered into a Memorandum of Understanding (MOU) with the City of Manila and the Department of Energy for a scaledown of the facility. Scaledown involves the dismantling of 28 storage tanks, construction of an additional buffer zone in the form of a “green” linear park, and the establishment of joint operations. This is considered the most viable approach to balance the safety and security risk concern, on one hand, and the critical need for a steady supply of petroleum products for Metro Manila and outlying provinces.

**Corporate Social Responsibility.** Good corporate citizenship is continuously advocated and practiced by Petron on the individual and company level. Our volunteers make their presence felt in the communities where Petron operates, in the areas of environmental protection, health, and education.

**COMPANY OUTLOOK**

We believe that our critical and analytical approach to the business creates a robust platform for performance that is focused on processes and the customer, and one that is based on serious insight, shared responsibility, and seamless cooperation.

Petron will consolidate its gains and continue in coming years to depend on its primary resources—people, asset, brand, and infrastructure—to unlock potential for creating value for customers and other stakeholders.

Our efforts in the next years will be geared towards providing our customers and consumers with cleaner fuels and higher-grade products. When the Isomerization Unit and Gasoil Hydrotreater are completed by the end of 2004, Petron will become the local industry’s benchmark for Clean Air solutions.

New thinking and new technologies will drive our investments in businesses to enhance our margins. In the process, we will be creating exciting career opportunities for our young leaders. Therefore, we will leverage the quality of our human capital, and make Petron the career destination of choice.

Our IT architecture will enable us to work on a unified platform even with our business partners, and bring us closer to our customers.

In closing, allow us to take this opportunity to thank our employees and business partners whose hard work, commitment and dedication have achieved for Petron much-improved performance. We deeply appreciate their efforts at working together with us in making Petron among the most admired.

To our shareholders, your continued support and confidence in your Company has enabled us to achieve excellence in all our business endeavors. As your Company gears for bigger business challenges and opportunities in the coming years, rest assured that we remain committed to meeting our goals and your expectations.
MARKETING

The oil business continues to attract new players into the field. In 2002, the new players collectively took 14% of the market.

Domestic demand remained soft, with overall industry volume sliding down by 3.3% compared to 2001, due mainly to the reduction in the fuel oil requirements of National Power Corporation (NAPOCOR) as it continued to diversify its energy sources.

Notwithstanding these challenges, Petron still dominated the industry in 2002 with a 33% overall market share.

LPG TRADE

Gasul remained the brand of choice in 2002. Efforts to raise brand consciousness brought in new customers for Gasul in the retail sector. Petron conducted a public awareness campaign to distinguish the genuine Gasul tanks from the fake or illegally refilled ones. To further protect the consumer, Gasul cylinders are now outfitted with the new blue aluminum tamper-proof seal. In support of clean air, Petron introduced “AutoGasul”, a cleaner, inexpensive, and efficient alternative fuel for cars. The first AutoGasul LPG dispensing pump was publicly unveiled in December 2002 at the San Gabriel Petron Service Station along C-5 Road, Pasig City.

INDUSTRIAL TRADE

Petron also won new industrial accounts, and improved sales activities on existing accounts. Sales to this trade grew by around 14%, as the company continued to extend technical support to industrial customers to enhance their profitability, safety and efficiency. These included fuel dispensing computerization and POL (petroleum, oils & lubricants) management seminars for the military, as well as firefighting seminars and an Oil Spill and Contingency Planning seminar for other major customers.

Performance chemicals, fuel additives, and base oils were successfully offered to industrial users, creating additional markets for Petron brands.

Lube Trade

To satisfy the growing motorist demand for superior engine oils, Petron reintroduced its lube brands during the year after reformulating them into higher-grade products. Now categorized into two carrying brands, Ultron for gasoline engines rated as API SL and Rev-X for diesel as API CH-4, come in attractive and sleek package design, each brand with four different variants to suit specific users. The Ultron Brand carries Race, Rallye, Touring, and Extra. Rev-X has the All-Terrain, Trekker, Hauler, and HD variants. Petron continued to increase its presence in the lube oil market to earn an 11% growth rate for the year. The lubes campaign succeeded in bringing the brands closer to consumers, especially jeepney drivers, proving that Petron knows its customers intimately.

RETAIL TRADE

The Petron fuels are carried by 1,162 retail service stations, the largest retail network countrywide. Petron’s significant presence in all the regions of the country allows the company to play a vital role in the life and activities of the citizenry, especially in the provincial areas.

Sales from Petron Express Centers or PECs have significantly helped improve Petron’s total premium gasoline volumes by 12%. These mega-stations are landmarks along the North and South Luzon Expressways and are favorite stopovers because they now provide motorists complete road service. The popularity of mega-stations is boosted by Petron’s non-fuel businesses, which are at the helm of Petron’s service enhancement program. In May 2002, Petron inaugurated a newly transformed PEC1, situated on the northbound lane of the North Luzon
Business

PHILOSOPHY

We work hard to meet the needs of our customers and serve the interests of our stakeholders.

- Continuous training even on the road
- Providing clean fuels like AutoGasul
- Ensuring the quality of our products
- Getting closer to our customers
- Exciting promotional campaigns
Review of OPERATIONS

Expressway in Bulacan. It has a Treats convenience store (c-store) and various locators such as Jollibee, Starbucks, Pancake House, Chowking and OJ’s Grill.

NON-FUELS BUSINESS

Petron’s non-fuels business (NFB) has enhanced the core business of fuel retailing by enticing more customers. Treats is now carried in 26 service stations and growing, and we have a total of 28 NFB locators. The c-stores and NFB locators have been a high-growth source of revenue for the company. In 2002, they generated P40.4 million in combined revenues for the company.

The new Petron-BPI Mastercard launched in March 2002 is a sequel to the Petron-Ayala Discount Card launched a year earlier. Aimed at keeping motorists loyal to Petron brands, this credit card is heavy on features that address motorists’ lifestyle needs.

Petron’s intimacy with the Filipino culture also manifests itself in advertising programs covering the arts, sports, and travel. In 2002, ArtPetron, a vehicle for young people to showcase artistic talent, featured the theme “Lumang Galing, Bagong Sining”, focusing on age-old Filipino crafts and skills passed on from generation to generation.

In sports, the Petron Philippine Taekwondo team won medals at the ASEAN Games. The motorist lifestyle magazine, Petron Rover, which offers a wide range of road traveler topics, is an industry ‘first.’

The newly rehabilitated main pier at the Petron Bataan Refinery.

REFINERY

REFINERY UTILIZATION

In 2002, Petron Bataan Refinery (PBR) processed an average of 126 thousand barrels per day, or a total of 46 million barrels of different crude oil types, consisting mainly of Arab crudes. The higher share of Arab crudes in the total crude mix has improved reliability and predictability of product yields.

ORGANIZATIONAL TRANSFORMATION

At the PBR, a comprehensive internal transformation program called STEP, or Survival Through Excellence Program, was launched in 2002 seeking to attain “best-in-class” status by 2005. The program builds around key areas that include operational excellence, safety, industrial peace, work competence, and social responsibility.

REFINERY IMPROVEMENTS AND UPGRADING

Work on two projects geared towards improving efficiency began at the Refinery. One is a project that will automate offsite operations using state-of-the-art technologies. Another will improve the energy intensity index from a high value of 92 to a low value of 77 by year 2006. Meanwhile rehabilitation work at the Refinery’s main pier was undertaken along with two projects addressing energy conservation and oil loss control.

OPERATIONAL IMPROVEMENT

Refinery engineers successfully modified the Mixed Xylene Plant, improving the bromine index of mixed xylene (M X) to meet export product specifications. Optimization of the unit increased M X recovery by 12%. Petron’s exports of this product more than doubled from the 2001 level.
Customer FOCUS

Petron’s non-fuels business has enhanced the core business of fuel retailing by enticing more customers.

- Pancake House and Chowking are among 28 locators
- One of 19 Treats convenience stores in selected stations
- The industry’s first motorist magazine
- The Petron-BPI Mastercard: Convenience at the motorist’s fingertips
- More choices and offerings for customers on the go

Service stations, now a stopover of choice
The Thermofor Catalytic Cracking Unit (TCCU) was also subjected to modification in the catalyst flow system, which reduced the catalyst attrition rate by 1.43 metric tons per day, or a reduction in actual catalyst consumption by more than one hundred million pesos.

**Environmental Compliance**

In November 2002, Petron started supplying unleaded gasoline with 35% aromatics and 2% benzene content as required by the 1999 Philippine Clean Air Act (CAA). By 2004, it will also have to comply with the 0.05% maximum sulfur content in diesel.

While the company can continue to meet the stringent CAA specifications by importing products for blending with own production, Petron has made the strategic decision to invest in refinery facilities. An Isomerization Unit will enable the production of on-spec gasoline, while a 22,000 barrel-per-day Gas Oil HydroTreater will bring the sulfur content in diesel to the required level. By the end of 2004, these facilities will distinguish Petron as the only refiner in the country with the capability to produce clean fuels. In the process, Petron would be protecting the energy security of the country by minimizing dependence on imported products to meet CAA standards.

**Supply and Distribution**

Focus on operating efficiencies and process improvement as a major contributor to gross margins has been demonstrated in a big way at Petron, where the supply operations and distribution segment of the supply chain is now fully integrated from raw material procurement to product delivery. In 2002, Petron sustained its efforts to achieve seamless interface throughout the supply chain.

In a landmark development, Petron began operating its depots in Mandaue and Pasig for joint use with another company. Among other considerations, the arrangement seeks to improve efficiencies and reduce costs through synergies in distribution, terminaling and product exchange operations.

To augment local marketing efforts, Petron capitalized on profitable export opportunities for straight run fuel oil (SRFO). This contributed significantly to the increase in export sales of over 41%, which not only widened Petron’s customer base, but also provided a natural hedge against currency risks.

**IT Architecture**

In a business that generates large amounts of data on a daily basis, Petron’s information technology (IT) infrastructure provides it with real-time and precise information for decision-making. The IT solution known as SAP (Systems, Applications and Products) has delivered this capability and has reinforced the company’s commitment to be customer-oriented. In 2002, Petron upgraded to the latest SAP version 4.6C, strategically positioning the company to support other IT initiatives in...
supply chain management, e-commerce, and customer relationship management. Through the use of the Application Link Enabling technology, the upgrade project made pioneering use of data and transaction synchronization between SAP systems, minimizing system downtime to just six hours. This is a first for any SAP installation worldwide and has been cited as one of the best-practice system implementations by SAP.

In November 2002, Petron also completed the migration of its IT network infrastructure from the expensive leased line technology to the highly reliable and cheaper frame relay technology. The frame relay upgrade now allows bulk plants and facilities throughout the country direct and more efficient access to the frame relay instead of passing through the three major nodes in Luzon, Visayas, and Mindanao. The frame relay technology also simplifies corporate network interconnection and is expected to save as much as 40% in data communications expenses for the company.

CORPORATE VALUES AND PRINCIPLES

Petron’s business goals are anchored on sound business principles and corporate ethics. Company goals such as operating excellence and the improvements in efficiencies are achieved by strictly adhering to our corporate values and principles. These values and principles are clearly seen in three vital areas, namely, human relations and people development; health, safety, and environment policy; and corporate social responsibility.
through marketing and customers skills training for dealers and a sound technical support program for industrial customers.

**Social Awareness**

Petron's corporate life is enriched by community involvement and sponsorships. With Petron Foundation (PFI) as the vehicle, the company focuses its commitment on three areas: environmental protection, health services, and education. Petron also encourages individual participation through its Volunteerism in Action (VIA) initiative.

In 2002, the company continued to participate in environmental stewardship programs, notably the Bataan Integrated Coastal Management Program, a multi-sectoral endeavor of the United Nations Development Programme, the Provincial Government of Bataan, civil society and private corporations led by Petron. Under the aegis of the Lakbayanihan program, Petron held medical and dental missions across the country. The Lingap Kapwa program provided relief goods to families affected by natural calamities. Project JOY treated some 20,000 beneficiaries to several presentations of the Modern Kabuki by the Japanese performing arts group Manjushaka.

In the area of education, Petron cooperated with Sa Aklat Siskat Foundation to hold a special reading literacy program for 9,700 Grade Four pupils from public schools in Marikina City and Batangas. Petron also joined Habitat for Humanity's Youth Build wherein the company provided ten homes for the program's beneficiaries.

New projects in the field of education were implemented during the year; namely, Tulong Aral ng Petron, a scholarship program which benefited 1,000 indigent children. The new Petron School program also provided a 3-classroom building in Tagoloan, Misamis Oriental. Petron's Skills Training and Education Program, STEP for short, provided training for poor youths as service station attendants.

A more detailed account of PFI programs is published in a yearly achievement report.

**Health, Safety & Environment (HSE)**

Petron has long held the belief that safe, healthy, and environment-friendly operations are key to the long-term sustainability of its business.

Petron is thus poised to become a work destination of choice for new graduates and young leaders, who will find service with the company personally and professionally rewarding.
These values and principles are clearly seen in three vital areas; namely, human relations and people development; health, safety, and environment policy; and corporate social responsibility.

- The new Petron School at Tagoloan, Misamis Oriental
- Free education for indigent children
- First-aid safety training for office employees
- Accessible and transparent to our publics
- Training and career development across all levels
- Fitness and wellness for work-life balance
### Financial Highlights

(In Million Pesos)

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<tr>
<td>Sales</td>
<td>92,330</td>
<td>88,427</td>
<td>87,968</td>
<td>61,768</td>
</tr>
<tr>
<td>Net Income (Loss)</td>
<td>2,914</td>
<td>1,224</td>
<td>(2,549)</td>
<td>2,362</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>3,700</td>
<td>3,704</td>
<td>3,674</td>
<td>3,761</td>
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<tr>
<td>Income (Loss) from Operations</td>
<td>5,162</td>
<td>3,499</td>
<td>(1,395)</td>
<td>3,877</td>
</tr>
<tr>
<td>Plant, Property &amp; Equipment</td>
<td>21,531</td>
<td>22,703</td>
<td>23,958</td>
<td>23,627</td>
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<tr>
<td>Total Assets</td>
<td>50,576</td>
<td>50,868</td>
<td>53,491</td>
<td>52,320</td>
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<tr>
<td>Total Equity</td>
<td>18,821</td>
<td>17,303</td>
<td>16,070</td>
<td>18,575</td>
</tr>
<tr>
<td>Earnings per Share</td>
<td>0.31</td>
<td>0.13</td>
<td>(0.27)</td>
<td>0.25</td>
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![Graphs of Sales, Net Income (Loss), Operating Expenses, Total Assets over years](graphs)
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Report of Independent Auditors 20
Consolidated Balance Sheets 21
Consolidated Statements of Income 22
Consolidated Statements of Changes in Stockholders’ Equity 23
Consolidated Statements of Cash Flows 24
Notes to Consolidated Financial Statements 25
The management of Petron Corporation is responsible for all information and representations contained in the consolidated balance sheets as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2002, 2001 and 2000. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls, and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, have examined the financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such examination, in their report to the Board of Directors and stockholders.

NICASIO I. ALCANTARA
Chairman and Chief Executive Officer

MOTASSIM A. AL-MA‘ASHOUQ
President

ANTONIO G. PELAYO
Controller & Vice President for Finance and Subsidiaries
Report of Independent Auditors

The Stockholders and the Board of Directors
Petron Corporation
Petron MegaPlaza
358 Sen. Gil Puyat Avenue
Makati City

We have audited the accompanying consolidated balance sheets of Petron Corporation and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Petron Corporation and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with the accounting principles generally accepted in the Philippines.

W. P. TAN
Partner
PTR No. 7612885
January 2, 2003
Makati City

February 7, 2003
## CONSOLIDATED BALANCE SHEETS

(Amounts in Millions)

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2001</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Current Assets</strong></td>
<td></td>
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<tr>
<td>Cash and cash equivalents (Note 3)</td>
<td>P 5,419</td>
<td>P 4,439</td>
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<tr>
<td>Short-term investments - net (Note 4)</td>
<td>57</td>
<td>52</td>
</tr>
<tr>
<td>Receivables - net (Notes 5 and 18)</td>
<td>9,673</td>
<td>8,420</td>
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<tr>
<td>Inventories - net (Notes 6, 16 and 18)</td>
<td>11,477</td>
<td>11,593</td>
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<tr>
<td>Other current assets (Note 13)</td>
<td>1,766</td>
<td>2,475</td>
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<tr>
<td><strong>Total Current Assets</strong></td>
<td>28,392</td>
<td>26,979</td>
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<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
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<tr>
<td>Property, plant and equipment - net (Note 7)</td>
<td>21,531</td>
<td>22,703</td>
</tr>
<tr>
<td>Investments - net (Note 8)</td>
<td>558</td>
<td>1,044</td>
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<tr>
<td>Other assets</td>
<td>95</td>
<td>142</td>
</tr>
<tr>
<td><strong>Total Noncurrent Assets</strong></td>
<td>22,184</td>
<td>23,889</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>P 50,576</td>
<td>P 50,868</td>
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<thead>
<tr>
<th></th>
<th>December 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2001</td>
</tr>
<tr>
<td><strong>LIABILITIES AND STOCKHOLDERS’ EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term loans (Note 9)</td>
<td>P 12,105</td>
<td>P 18,229</td>
</tr>
<tr>
<td>Liabilities for crude oil and petroleum product importation (Note 16)</td>
<td>4,731</td>
<td>3,042</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses (Note 10)</td>
<td>3,298</td>
<td>3,844</td>
</tr>
<tr>
<td>Current portion of long-term debt (Note 11)</td>
<td>5,325</td>
<td>1,034</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>25,459</td>
<td>26,149</td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities - net (Notes 11 and 13)</strong></td>
<td>6,296</td>
<td>7,416</td>
</tr>
<tr>
<td><strong>Stockholders’ Equity (Notes 6 and 12)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital stock</td>
<td>9,375</td>
<td>9,375</td>
</tr>
<tr>
<td>Retained earnings:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriated</td>
<td>5,551</td>
<td>4,612</td>
</tr>
<tr>
<td>Unappropriated</td>
<td>3,794</td>
<td>3,225</td>
</tr>
<tr>
<td>Accumulated translation adjustments</td>
<td>101</td>
<td>91</td>
</tr>
<tr>
<td><strong>Total Stockholders’ Equity</strong></td>
<td>18,821</td>
<td>17,303</td>
</tr>
<tr>
<td><strong>Total Liabilities and Stockholders’ Equity</strong></td>
<td>P 50,576</td>
<td>P 50,868</td>
</tr>
</tbody>
</table>

See accompanying Notes to Consolidated Financial Statements.
## CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Millions, Except Per Share Amounts)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES</strong> (Notes 18 and 23)</td>
<td>P 92,330</td>
<td>P 88,427</td>
<td>P 87,968</td>
</tr>
<tr>
<td><strong>COST OF GOODS SOLD</strong> (Notes 6, 14, 16, 17, 18, and 21)</td>
<td>83,468</td>
<td>81,224</td>
<td>85,689</td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>8,862</td>
<td>7,203</td>
<td>2,279</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong> (Notes 15, 16 and 17)</td>
<td>3,700</td>
<td>3,704</td>
<td>3,674</td>
</tr>
<tr>
<td><strong>INCOME (LOSS) FROM OPERATIONS</strong></td>
<td>5,162</td>
<td>3,499</td>
<td>(1,395)</td>
</tr>
<tr>
<td><strong>OTHER INCOME (CHARGES) - Net</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest (Notes 9 and 11)</td>
<td>(811)</td>
<td>(1,408)</td>
<td>(1,080)</td>
</tr>
<tr>
<td>Foreign exchange gain (loss) (Note 21)</td>
<td>(200)</td>
<td>112</td>
<td>(578)</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>(6)</td>
<td>(319)</td>
<td>(796)</td>
</tr>
<tr>
<td></td>
<td>(1,017)</td>
<td>(1,615)</td>
<td>(2,454)</td>
</tr>
<tr>
<td><strong>INCOME (LOSS) BEFORE INCOME TAX</strong></td>
<td>4,145</td>
<td>1,884</td>
<td>(3,849)</td>
</tr>
<tr>
<td><strong>PROVISION FOR (BENEFIT FROM) INCOME TAX</strong> (Notes 13 and 22)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>262</td>
<td>196</td>
<td>252</td>
</tr>
<tr>
<td>Deferred</td>
<td>969</td>
<td>464</td>
<td>(1,552)</td>
</tr>
<tr>
<td></td>
<td>1,231</td>
<td>660</td>
<td>(1,300)</td>
</tr>
<tr>
<td><strong>NET INCOME (LOSS)</strong> (Notes 2, 6 and 19)</td>
<td>P 2,914</td>
<td>P 1,224</td>
<td>(P 2,549)</td>
</tr>
<tr>
<td><strong>EARNINGS (LOSS) PER SHARE</strong> (Notes 6 and 19)</td>
<td>P 0.31</td>
<td>P 0.13</td>
<td>(P 0.27)</td>
</tr>
</tbody>
</table>

See accompanying Notes to Consolidated Financial Statements.
### CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

**For each of the three years in the period ended December 31, 2002**

(Amounts in Millions, Except Per Share Amounts)

<table>
<thead>
<tr>
<th></th>
<th>Capital Stock (Note 12)</th>
<th>Retained Earnings (Note 12)</th>
<th>Accumulated Translation Adjustments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at December 31, 1999,</strong> as previously reported</td>
<td>P 9,375</td>
<td>P 2,791</td>
<td>P 6,906</td>
<td>P 38</td>
</tr>
<tr>
<td>Effect of change in inventory valuation method (Note 6)</td>
<td>-</td>
<td>-</td>
<td>(535)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance at December 31, 1999,</strong> as restated</td>
<td>9,375</td>
<td>2,791</td>
<td>6,371</td>
<td>38</td>
</tr>
<tr>
<td><strong>Net loss for the year, as restated (Note 6)</strong></td>
<td>-</td>
<td>-</td>
<td>(2,549)</td>
<td>-</td>
</tr>
<tr>
<td>Reversal of prior years' appropriation for capital projects (Note 12)</td>
<td>-</td>
<td>(472)</td>
<td>472</td>
<td>-</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2000,</strong> as restated</td>
<td>9,375</td>
<td>2,319</td>
<td>4,294</td>
<td>82</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2000,</strong> as previously reported</td>
<td>9,375</td>
<td>2,319</td>
<td>6,339</td>
<td>82</td>
</tr>
<tr>
<td>Effect of change in inventory valuation method (Note 6)</td>
<td>-</td>
<td>-</td>
<td>(2,045)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2000,</strong> as restated</td>
<td>9,375</td>
<td>2,319</td>
<td>4,294</td>
<td>82</td>
</tr>
<tr>
<td><strong>Net income for the year (Note 6)</strong></td>
<td>-</td>
<td>-</td>
<td>1,224</td>
<td>-</td>
</tr>
<tr>
<td>Appropriated for capital projects (Note 12)</td>
<td>-</td>
<td>2,293</td>
<td>(2,293)</td>
<td>-</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2001</strong></td>
<td>9,375</td>
<td>4,612</td>
<td>3,225</td>
<td>91</td>
</tr>
<tr>
<td><strong>Net income for the year</strong></td>
<td>-</td>
<td>-</td>
<td>2,914</td>
<td>-</td>
</tr>
<tr>
<td>Appropriated for capital projects (Note 12)</td>
<td>-</td>
<td>939</td>
<td>(939)</td>
<td>-</td>
</tr>
<tr>
<td>Cash dividends - P0.15/share (Note 12)</td>
<td>-</td>
<td>-</td>
<td>(1,406)</td>
<td>-</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>-</td>
<td>-</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2002</strong></td>
<td>P 9,375</td>
<td>P 5,551</td>
<td>P 3,794</td>
<td>P 101</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>P 18,821</td>
</tr>
</tbody>
</table>

See accompanying Notes to Consolidated Financial Statements.
## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>2002</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income (loss) before income tax</td>
<td>₱4,145</td>
<td>₱1,884</td>
<td>(₱3,849)</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>₱2,284</td>
<td>₱2,330</td>
<td>₱2,274</td>
</tr>
<tr>
<td>Interest expense</td>
<td>₱1,068</td>
<td>₱1,823</td>
<td>₱1,860</td>
</tr>
<tr>
<td>Interest income</td>
<td>(₱257)</td>
<td>(₱415)</td>
<td>(₱780)</td>
</tr>
<tr>
<td>Provision for (reversal of) doubtful accounts, inventory obsolescence and others</td>
<td>(₱180)</td>
<td>(₱64)</td>
<td>₱348</td>
</tr>
<tr>
<td>Unrealized foreign exchange loss</td>
<td>₱184</td>
<td>₱40</td>
<td>₱454</td>
</tr>
<tr>
<td>Cylinder deposits written-off</td>
<td>—</td>
<td>—</td>
<td>(₱682)</td>
</tr>
<tr>
<td>Operating income (loss) before working capital changes</td>
<td>₱7,244</td>
<td>₱5,598</td>
<td>(₱375)</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities (Note 20)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables - others</td>
<td>₱54</td>
<td>₱763</td>
<td>(₱902)</td>
</tr>
<tr>
<td>Other assets</td>
<td>₱29</td>
<td>(₱29)</td>
<td>₱292</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>₱300</td>
<td>(₱32)</td>
<td>(₱1,013)</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>—</td>
<td>—</td>
<td>₱624</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>₱6,192</td>
<td>(₱357)</td>
<td>(₱4,588)</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM INVESTING ACTIVITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to property, plant and equipment</td>
<td>(₱1,106)</td>
<td>(₱867)</td>
<td>(₱2,239)</td>
</tr>
<tr>
<td>Decrease (increase) in:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables - others</td>
<td>₱54</td>
<td>₱763</td>
<td>(₱902)</td>
</tr>
<tr>
<td>Other assets</td>
<td>₱29</td>
<td>(₱29)</td>
<td>₱292</td>
</tr>
<tr>
<td>Reductions from (additions to):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term investments</td>
<td>₱300</td>
<td>(₱32)</td>
<td>(₱1,013)</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>—</td>
<td>—</td>
<td>₱624</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(₱723)</td>
<td>(₱165)</td>
<td>(₱3,238)</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM FINANCING ACTIVITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments of:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td>(₱39,855)</td>
<td>(₱53,477)</td>
<td>(₱53,253)</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>(₱1,380)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Availment of loans</td>
<td>₱36,467</td>
<td>₱51,428</td>
<td>₱54,792</td>
</tr>
<tr>
<td>Cylinder deposits received</td>
<td>₱99</td>
<td>₱76</td>
<td>₱88</td>
</tr>
<tr>
<td>Minority interest</td>
<td>₱10</td>
<td>₱17</td>
<td>₱36</td>
</tr>
<tr>
<td>Net cash provided by (used in) financing activities</td>
<td>(₱4,479)</td>
<td>(₱1,956)</td>
<td>₱1,663</td>
</tr>
<tr>
<td><strong>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(10)</td>
<td>10</td>
<td>46</td>
<td></td>
</tr>
<tr>
<td><strong>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</strong></td>
<td>₱980</td>
<td>(₱2,468)</td>
<td>(₱6,117)</td>
</tr>
<tr>
<td><strong>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</strong></td>
<td>₱4,439</td>
<td>₱6,907</td>
<td>₱13,024</td>
</tr>
<tr>
<td><strong>CASH AND CASH EQUIVALENTS AT END OF YEAR</strong> (Note 3)</td>
<td>₱5,419</td>
<td>₱4,439</td>
<td>₱6,907</td>
</tr>
</tbody>
</table>

See accompanying Notes to Consolidated Financial Statements.
1. Corporate Information

Petron Corporation (Petron or the Company) was incorporated on December 15, 1966. Petron is the Philippines' largest oil refining and marketing company, supplying more than one-third of the country's oil requirements. Its refinery located in Limay, Bataan processes crude oil into a full range of petroleum products, including liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, industrial fuel oil, lubes and greases, and asphalts. From the refinery, Petron moves its products mainly by sea, using tankers and barges to distribute products to a nationwide network of bulk plants and terminals. Through this network, it sells fuel oil, diesel and LPG to industrial customers.

Petron retails gasoline, diesel and kerosene to motorists, public transport operators and households through more than a thousand service stations, and sells its LPG brand to consumers through a dealership network.

The registered office address of Petron and its Philippine-based subsidiaries is Petron MegaPlaza, 358 Sen. Gil Puyat Avenue, Makati City. The number of employees of Petron and subsidiaries is 1,198 as of December 31, 2002 and 1,252 as of December 31, 2001.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the consolidated financial statements of Petron are as follows:

Basis of Preparation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines under the historical cost convention.

Adoption of New Statements of Financial Accounting Standards (SFAS)

The Company adopted the following SFAS, which became effective for financial statements covering periods beginning on or after January 1, 2002:

- **SFAS 16/IAS 16, "Property, Plant and Equipment"**
- **SFAS 21/IAS 21, "Changes in Foreign Exchange Rates"**
- **SFAS 24/IAS 24, "Related Party Disclosures"**
- **SFAS 27/IAS 27, "Consolidated Financial Statements and Accounting for Investments in Subsidiaries"**
- **SFAS 28/IAS 28, "Accounting for Investments in Associates"**
- **SFAS 30/IAS 30, "Government Grants"**
- **SFAS 36/IAS 36, "Impairment of Assets"**

Adoption of these new standards in 2002 did not result in restatement of prior year consolidated financial statements. Additional disclosure requirements were included in the 2002 and 2001 financial statements, where applicable.

New Accounting Standards Effective Subsequent to 2002

The Accounting Standards Council approved the following accounting standards which will be effective subsequent to 2002:

- **SFAS 17/IAS 17, "Leases"**
- **SFAS 20/IAS 20, "Government Grants"**
- **SFAS 22/IAS 22, "Changes in Foreign Exchange Rates"**
- **SFAS 23/IAS 23, "Consolidated Financial Statements and Accounting for Investments in Affiliates"**
- **SFAS 37/IAS 37, "Provisions, Contingent Liabilities and Assets"**
- **SFAS 38/IAS 38, "Intangible Assets"**

Adoption of these new standards in 2003 will result in restatement of prior year consolidated financial statements. Additional disclosure requirements were included in the 2002 and 2001 financial statements, where applicable.

Principles of Consolidation and Investments

The consolidated financial statements comprise the financial statements of Petron and its subsidiaries as of December 31 of each year.

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

The consolidated financial statements include the accounts of Petron and its subsidiaries, namely Overseas Ventures Insurance Corporation Ltd. (O vincor, a 100% owned subsidiary incorporated under the laws of Bermuda), Petrogen Insurance Corporation (Petrogen, 100% owned subsidiary) and New Ventures Realty Corporation (NVRC, 30% owned subsidiary). The accounts of NVRC are included in the consolidation since Petron retains financial and operating control. All significant intercompany accounts and transactions are eliminated. Minority interest in the net income of NVRC, which is not material, is included under "Other income (charges)" account in the consolidated statements of income. Minority interest is included under "Noncurrent Liabilities" in the consolidated balance sheets.
Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amount. An estimate for doubtful accounts purposes, such duties and taxes are treated as deductible expenses in the period these charges are incurred.

For income tax reporting purposes, all inventories are costed using the moving average method.

Proper

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Revenue Recognition
Sale is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, title has transferred, selling price is fixed or determinable and collectibility of the selling price is reasonably assured. Interest is recognized on a time proportion basis that reflects the effective yield on the assets.

Pension Plan
Petron and its subsidiaries have a defined benefit pension plan covering all permanent regular full-time employees. Retirement costs are actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees. Valuation is made every year to update the plan costs and adjust the amount of contributions.

Operating Lease
Lease payments under an operating lease are recognized as an expense on a straight-line basis over the term of the lease.

Income Taxes
Deferred income tax is provided using the liability method. Deferred tax assets and liabilities are recognized for: (a) future tax consequences attributable to temporary differences between the financial reporting bases of assets and liabilities and their related tax bases; (b) carry forward benefit of the excess of the minimum corporate income tax (MCIT) over the corporate income tax; and, (c) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and NOLCO and MCIT are expected to be applied. A valuation allowance is provided for deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized in the future.

Foreign Currency - Denominated Transactions
Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the spot exchange rate as of balance sheet date. Exchange gains or losses arising from foreign currency-denominated transactions are credited or charged to current operations, except for gains or losses arising from restatement of foreign currency-denominated loans used in the acquisition and construction of property, plant and equipment, which were capitalized as part of the carrying amount of related assets up to 2001.

The financial statements of O vincor have been translated into Philippine peso using the current rate method for purposes of consolidation. Under the current rate method, assets and liabilities are translated at spot exchange rate at year end, capital stock accounts at historical rates while revenues, expenses and other income and charges are translated using the average exchange rate. Differences resulting from translation are shown as accumulated translation adjustments under the stockholders' equity section of the consolidated balance sheets.

Interest Capitalization
Interest costs generally are expensed as incurred. For financial reporting purposes, interest on loans used to finance capital projects is capitalized as part of project costs (shown as part of construction-in-progress account) during construction period. For income tax reporting purposes, such interest is treated as deductible expense in the period the interest is incurred.

Derivative Financial Instruments
Petron uses commodity price swaps to manage its margin on industrial and jet fuel oil from potential price volatility of crude oil and of industrial and jet fuel oil. In addition, Petron also enters into short-term currency forward contracts to hedge its foreign currency exposure on crude oil importations. The gains or losses on these hedging instruments, including related premium amortization, are recognized in current operations simultaneous with the losses or gains on the underlying hedged transactions.

Basic Earnings (Loss) Per Share
Basic earnings (loss) per share is computed based on the weighted average number of outstanding shares after giving retroactive effect to any stock split and stock dividends declared during the year. There are no dilutive potential common shares outstanding that would require disclosure of diluted earnings (loss) per share in the consolidated statements of income.

### Cash and Cash Equivalents

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand and in banks</td>
<td>2,381</td>
<td>2,093</td>
</tr>
<tr>
<td>Money market placements</td>
<td>3,038</td>
<td>2,346</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,419</strong></td>
<td><strong>4,439</strong></td>
</tr>
</tbody>
</table>

### Short-term Investments

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term cash investments</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Marketable equity securities - net</td>
<td>32</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

 Marketable equity securities are carried at cost, net of allowance for market decline amounting to ₱47 as of December 31, 2002 and ₱52 as of December 31, 2001.

### Receivables

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>8,034</td>
<td>6,438</td>
</tr>
<tr>
<td>Claims (see Note 18)</td>
<td>3,340</td>
<td>3,325</td>
</tr>
<tr>
<td>Others</td>
<td>878</td>
<td>1,181</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10,282</strong></td>
<td><strong>8,944</strong></td>
</tr>
<tr>
<td>Less allowance for doubtful accounts</td>
<td>579</td>
<td>524</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,703</strong></td>
<td><strong>8,420</strong></td>
</tr>
</tbody>
</table>
6. Inventories

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum products</td>
<td>5,376</td>
<td>4,971</td>
</tr>
<tr>
<td>Crude oil</td>
<td>5,215</td>
<td>5,630</td>
</tr>
<tr>
<td>TBA products, materials and supplies</td>
<td>1,046</td>
<td>1,107</td>
</tr>
<tr>
<td><strong>Less allowance for inventory obsolescence</strong></td>
<td><strong>11,839</strong></td>
<td><strong>11,708</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,877</strong></td>
<td><strong>11,825</strong></td>
</tr>
</tbody>
</table>

Using the moving average method, the cost of petroleum products would have increased by ₱1,111 as of December 31, 2002 and ₱4,463 as of December 31, 2001.

As mentioned in Note 2, effective January 1, 2001, Petron reverted to the FIFO method in costing crude oil and the LIFO method for petroleum products (except tubes and greases, waxes and solvents, which will continue to use the moving average method). These were the methods used by Petron prior to 1999. In 1999 and 2000, the cost of these inventories was determined using the moving average method following the rollout of a new enterprise-wide, integrated information system in 1999. The change in inventory costing to FIFO/LIFO in 2001 was made for better matching of costs and revenues. Prior year consolidated financial statements were restated to reflect the change.

The consolidated financial statements for the year ended December 31, 2001 reflected the effect of the change, which decreased cost of sales by ₱1,513 or 1.8% of the cost of sales prior to the change, thus increasing net income by ₱1,029 (net of related tax effect of ₱484) and decreased previously reported ending balance of 2000 retained earnings by ₱2,045, net of related tax effect of ₱962. The consolidated financial statements for the year ended December 31, 2000 were restated for this change that increased previously reported net loss for 2000 by ₱1,510 (or ₱0.16 per share), net of related tax effect of ₱710, and decreased previously reported beginning balance of 2000 retained earnings by ₱535 (or ₱0.06 per share), net of related tax effect of ₱252.

7. Property, Plant and Equipment

<table>
<thead>
<tr>
<th></th>
<th>Buildings and Related Facilities</th>
<th>Refinery and Plant Equipment</th>
<th>Service Stations and Other Equipment</th>
<th>Computers, Office and Motor Equipment</th>
<th>Land and Leasold Improvements</th>
<th>Construction-in-Progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At January 1, 2002</td>
<td>₱5,801</td>
<td>₱12,947</td>
<td>₱611</td>
<td>₱352</td>
<td>₱2,385</td>
<td>₱1,047</td>
<td>₱22,703</td>
</tr>
<tr>
<td>Additions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers</td>
<td>277</td>
<td>635</td>
<td>8</td>
<td>108</td>
<td>15</td>
<td>(1,091)</td>
<td>(48)</td>
</tr>
<tr>
<td>Depreciation and amortization charge for the year</td>
<td>(347)</td>
<td>(1,428)</td>
<td>(214)</td>
<td>(174)</td>
<td>(111)</td>
<td>-</td>
<td>(2,274)</td>
</tr>
<tr>
<td>Net carrying amount</td>
<td>₱5,531</td>
<td>₱12,154</td>
<td>₱409</td>
<td>₱296</td>
<td>₱2,226</td>
<td>₱1,049</td>
<td>₱21,531</td>
</tr>
</tbody>
</table>

Foreign exchange losses arising from translation adjustments recorded as part of property, plant and equipment amounted to ₱564 in 2001. Cumulative capitalized foreign exchange losses, net of depreciation, amounted to ₱2,640 as of December 31, 2002 and ₱2,868 as of December 31, 2001. No foreign exchange adjustment was capitalized in 2002 and no interest was capitalized in 2001 and 2002.

8. Investments

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes and bonds</td>
<td>₱284</td>
<td>₱271</td>
</tr>
<tr>
<td>Shares of stocks - at cost</td>
<td>156</td>
<td>59</td>
</tr>
<tr>
<td>Other investments (net of allowance for decline in value of ₱76 in 2002 and ₱980 in 2001)</td>
<td>118</td>
<td>714</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>₱558</td>
<td>₱1,044</td>
</tr>
</tbody>
</table>

Shares of stocks include the downpayment for the purchase by N VRC of the shares of stocks of Las Lucas Development Corporation amounting to ₱69. Total aggregate purchase price amounts to ₱296. Consummation of the purchase transaction is subject to the fulfillment of certain conditions as stipulated in the Contract to Sell agreement. Fulfillment of specified conditions is required prior to each subsequent installment payment by N VRC.

a. First installment in the amount of ₱104 payable not later than January 2, 2003, and
b. A second installment in the amount of ₱104 shall be payable not later than twelve months from the date of receipt by the seller of the downpayment.

On January 2, 2003, N VRC paid the first installment amounting to ₱104.

Other investments account represents Petron’s matured investments with an institution under financial difficulty or receivership. Rehabilitation or recovery programs have been drawn up for implementation by this institution. Management believes that the allowance for decline in value of ₱76 in 2002 is adequate to cover any possible loss from these investments.
9. **Short-term Loans**

<table>
<thead>
<tr>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term unsecured peso loans at prevailing interest rates obtained from local banks to finance importation of crude oil and petroleum products, capital expenditures and working capital requirements</td>
<td>₱ 12,105</td>
</tr>
<tr>
<td>Drawings against foreign currency-denominated credit lines used to finance importation of crude oil and petroleum products</td>
<td>₱ -10,929</td>
</tr>
</tbody>
</table>

10. **Accounts Payable and Accrued Expenses**

<table>
<thead>
<tr>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>₱ 503</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>940</td>
</tr>
<tr>
<td>Specific taxes and other taxes payable</td>
<td>412</td>
</tr>
<tr>
<td>Others</td>
<td>1,443</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>₱ 3,298</td>
</tr>
</tbody>
</table>

11. **Noncurrent Liabilities**

<table>
<thead>
<tr>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt - syndicated dollar bank loan</td>
<td>₱ 5,325</td>
</tr>
<tr>
<td>Long-term unsecured peso loan</td>
<td>4,000</td>
</tr>
<tr>
<td>Less current portion</td>
<td>5,325</td>
</tr>
<tr>
<td>Deferred tax liabilities - net (see Note 13)</td>
<td>4,000</td>
</tr>
<tr>
<td>Cylinder deposits and others</td>
<td>1,789</td>
</tr>
<tr>
<td>Minority interest</td>
<td>107</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>₱ 6,296</td>
</tr>
</tbody>
</table>

The salient terms of the foregoing loans are summarized as follows:

<table>
<thead>
<tr>
<th>Original Amount</th>
<th>Syndicated dollar loan - US$120 million</th>
<th>Landbank - ₱2 billion</th>
<th>Citibank - ₱2 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment Term</td>
<td>8 equal quarterly installments over 4 years up to September 2006, inclusive of two-year grace period</td>
<td>13 equal quarterly installments starting April 2004</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>6-month LIBOR plus a certain spread</td>
<td>91-day T-bill rate plus a fixed spread</td>
<td>91-day T-bill rate plus a fixed spread</td>
</tr>
<tr>
<td>Security</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Major Covenants</td>
<td>Maintenance of certain financial ratios</td>
<td>Maintenance of certain financial ratios</td>
<td>Maintenance of certain financial ratios</td>
</tr>
</tbody>
</table>

As of December 31, 2002, the Company is in compliance with its loan covenants.

Loan maturities for the next 5 years are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>₱ 5,325</td>
</tr>
<tr>
<td>2004</td>
<td>712</td>
</tr>
<tr>
<td>2005</td>
<td>1,615</td>
</tr>
<tr>
<td>2006</td>
<td>1,365</td>
</tr>
<tr>
<td>2007</td>
<td>308</td>
</tr>
</tbody>
</table>

12. **Stockholders’ Equity**

a. **Capital Stock**

<table>
<thead>
<tr>
<th>Authorized - ₱1.00 par value</th>
<th>Number of Shares</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000,000,000</td>
<td>10,000</td>
<td>₱ 10,000</td>
</tr>
</tbody>
</table>

b. **Retained Earnings**

i. This account includes Petron’s accumulated equity in net earnings of subsidiaries of ₱596 in 2002 and ₱431 in 2001, which are not currently available for dividend declaration.

ii. **Declaration of Cash Dividends**

On May 7, 2002, the Company declared a cash dividend of ₱0.15/share amounting to ₱1,406 to all stockholders of record as of June 6, 2002.

iii. **Appropriation for Capital Projects**

Petron appropriated ₱939 in 2002 and ₱2,293 in 2001 for future capital projects.

Petron reversed the expended portion of the appropriation for capital projects amounting to ₱472 in 2000.
13. **Income Taxes**

The significant components of the consolidated deferred tax assets and liabilities are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory differential</td>
<td>P 674</td>
<td>P 478</td>
</tr>
<tr>
<td>MCIT</td>
<td>P 420</td>
<td>P 233</td>
</tr>
<tr>
<td>Unrealized foreign exchange loss on short-term loans</td>
<td>P 62</td>
<td>P 51</td>
</tr>
<tr>
<td>NOLCO</td>
<td>-</td>
<td>1,409</td>
</tr>
<tr>
<td>Various allowances, accruals and others</td>
<td>P 392</td>
<td>P 389</td>
</tr>
<tr>
<td></td>
<td>P 1,548</td>
<td>P 2,560</td>
</tr>
<tr>
<td>Less deferred tax liability -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capitalized taxes and duties on inventory deducted in advance</td>
<td>P 332</td>
<td>P 365</td>
</tr>
<tr>
<td></td>
<td>P 1,216</td>
<td>P 2,195</td>
</tr>
<tr>
<td><strong>Noncurrent</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of double declining over straight-line method of depreciation and amortization</td>
<td>P 1,048</td>
<td>P 976</td>
</tr>
<tr>
<td>Capitalized foreign exchange losses, interest, duties and taxes on property, plant and equipment deducted in advance and others</td>
<td>P 818</td>
<td>975</td>
</tr>
<tr>
<td></td>
<td>P 1,866</td>
<td>P 1,951</td>
</tr>
<tr>
<td>Less deferred tax asset -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unamortized past service pension cost</td>
<td>77</td>
<td>152</td>
</tr>
<tr>
<td></td>
<td>P 1,789</td>
<td>P 1,799</td>
</tr>
</tbody>
</table>

The net current deferred tax assets are shown in the consolidated balance sheets as part of "Other current assets" account.

The net noncurrent deferred tax liabilities are shown in the consolidated balance sheets as part of "Noncurrent liabilities" account.

Petron claimed NOLCO amounting to P4,402 for the year ended December 31, 2002.

The MCIT can be claimed as a tax credit against regular corporate income tax due up to three years. The MCIT of P420 as of December 31, 2002 consists of P112 in 2000 which will expire in 2003, P121 in 2001 which will expire in 2004, and P187 in 2002 which will expire in 2005.

The reconciliation of provision for income tax computed at the applicable statutory income tax rate to provision for (benefit from) income tax as shown in the consolidated statements of income is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax computed at statutory income tax rate</td>
<td>P 1,326</td>
<td>P 603</td>
<td>(P 1,232)</td>
</tr>
<tr>
<td>Income tax effect of permanent differences:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income subjected to lower final tax and others</td>
<td>22</td>
<td>74</td>
<td>(23)</td>
</tr>
<tr>
<td>Income subject to income tax holiday (see Note 22)</td>
<td>(117)</td>
<td>(17)</td>
<td>(45)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for (benefit from) income tax</td>
<td>P 1,231</td>
<td>P 660</td>
<td>(P 1,300)</td>
</tr>
</tbody>
</table>

14. **Cost of Goods Sold**

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>P 80,750</td>
<td>P 77,881</td>
<td>P 79,805</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,180</td>
<td>1,150</td>
<td>1,127</td>
</tr>
<tr>
<td>Employee costs (see Note 17)</td>
<td>345</td>
<td>305</td>
<td>272</td>
</tr>
<tr>
<td>Others</td>
<td>1,193</td>
<td>1,888</td>
<td>4,685</td>
</tr>
<tr>
<td></td>
<td>P 83,488</td>
<td>P 81,224</td>
<td>P 85,689</td>
</tr>
</tbody>
</table>

15. **Operating Expenses**

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortization</td>
<td>P 1,104</td>
<td>P 1,180</td>
<td>P 1,147</td>
</tr>
<tr>
<td>Employee costs (see Note 17)</td>
<td>921</td>
<td>860</td>
<td>911</td>
</tr>
<tr>
<td>Purchased services and utilities</td>
<td>424</td>
<td>390</td>
<td>424</td>
</tr>
<tr>
<td>Maintenance and repairs</td>
<td>379</td>
<td>412</td>
<td>384</td>
</tr>
<tr>
<td>Advertising</td>
<td>277</td>
<td>273</td>
<td>277</td>
</tr>
<tr>
<td>Materials and office supplies</td>
<td>245</td>
<td>289</td>
<td>152</td>
</tr>
<tr>
<td>Taxes and licenses</td>
<td>111</td>
<td>88</td>
<td>68</td>
</tr>
<tr>
<td>Insurance</td>
<td>65</td>
<td>42</td>
<td>28</td>
</tr>
<tr>
<td>Provision for doubtful accounts</td>
<td>65</td>
<td>99</td>
<td>70</td>
</tr>
<tr>
<td>Entertainment, amusement and representation</td>
<td>13</td>
<td>24</td>
<td>77</td>
</tr>
<tr>
<td>Others</td>
<td>96</td>
<td>47</td>
<td>136</td>
</tr>
<tr>
<td></td>
<td>P 3,708</td>
<td>P 3,704</td>
<td>P 3,674</td>
</tr>
</tbody>
</table>

**PETRON 2002 ANNUAL REPORT** 30
16. Related Party Transactions

The significant transactions with related parties are as follows:

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Relationship</th>
<th>Nature of transaction</th>
<th>Transaction amount</th>
<th>Balance at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Aramco</td>
<td>40% stockholder</td>
<td>Crude purchases</td>
<td>P45,603</td>
<td>P2,938</td>
</tr>
<tr>
<td>PNOC</td>
<td>40% stockholder</td>
<td>Lease agreements</td>
<td>121</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Relationship</th>
<th>Nature of transaction</th>
<th>Transaction amount</th>
<th>Balance at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Aramco</td>
<td>40% stockholder</td>
<td>Crude purchases</td>
<td>P38,636</td>
<td>P1,792</td>
</tr>
<tr>
<td>PNOC</td>
<td>40% stockholder</td>
<td>Lease agreements</td>
<td>119</td>
<td></td>
</tr>
</tbody>
</table>

a. Petron and Saudi Arabian Oil Company (Saudi Aramco) have a term contract to purchase and supply, respectively, 90% of Petron's monthly crude oil requirements over a twenty-year period at Saudi Aramco's standard Far East selling prices. Outstanding liabilities of Petron for such purchases are shown as part of "Liabilities for crude oil and petroleum product importation" account in the consolidated balance sheets.

b. Petron has long-term lease agreements with Philippine National Oil Company (PNOC) until August 2018 covering certain lots where its refinery and other facilities are located. Lease charges on refinery facilities escalate at two percent a year, subject to increase upon reappraisal.

Rental expense amounted to P121 in 2002, P119 in 2001 and P99 in 2000. Total annual rental commitments for the next five years under these agreements are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>123</td>
</tr>
<tr>
<td>2004</td>
<td>126</td>
</tr>
<tr>
<td>2005</td>
<td>128</td>
</tr>
<tr>
<td>2006</td>
<td>131</td>
</tr>
<tr>
<td>2007</td>
<td>133</td>
</tr>
</tbody>
</table>

17. Pension Plan

Petron and its subsidiaries maintain a qualified, noncontributory, trusteeed pension plan covering substantially all permanent regular full-time employees. As of the most recent valuation date of Petron and its subsidiaries' pension plan (January 1, 2003), the fair value of the plan assets amounted to P2,841. The actuarial present value of pension benefits, based on the assumed rate of return of 9%, amounted to P2,073. The excess of the fair value of the plan assets over the actuarial present value of pension benefits amounted to P768. No pension expense was provided in 2002 and 2001. Total pension expense amounted to P180 in 2000.

18. Supplementary Information

a. Petroleum Product Price Regulation

The industry is under full deregulation by virtue of Republic Act (RA) No. 8479 (effective February 1998) which contains, among others, the following significant provisions:

i. Imposition of a single and uniform tariff duty at 3% for both crude oil and refined petroleum products;

ii. The abolition of the Oil Price Stabilization Fund (OPSF), which rules and regulations in effect during the period of regulation, required oil companies to contribute to or claim from the OPSF amounts based on the sale of certain refined petroleum products, movements in exchange rates and other cost over/under recoveries; and,

iii. The settlement of the oil companies' outstanding OPSF claims through the application of reimbursement certificates issued by the Department of Energy against payment of tariff duties and taxes to the extent of 10% thereof until full settlement of all OPSF claims.

Petron's outstanding claims from the OPSF, which are recorded under the "Receivables" account in the consolidated balance sheets, amounted to P67 as of December 31, 2002 and 2001.

b. Processing License Agreement

Petron was granted by Pennzoil-Quaker State International Corporation (Pennzoil) an exclusive license to blend and package certain Pennzoil products until December 31, 2003. The agreement also includes the license to use certain Pennzoil trademarks and the payment of a royalty fee based on net sales value. Royalty expense amounted to P1.97 in 2002, P1.63 in 2001 and P1.38 in 2000.

c. Fuel Supply Contract with National Power Corporation (NPC)

Petron entered into a fuel supply contract with NPC commencing on July 1, 2002. Under the agreement, the company supplies bunker fuel and diesel fuel oil requirements to selected NPC plants. The 2002-2003 supply contract with NPC will expire on December 31, 2003. The 2001-2002 fuel supply contract was extended to June 30, 2002 from the original expiration date of March 31, 2002.

19. Basic Earnings (Loss) Per Share

Basic earnings per share (EPS) for the year ended December 31, 2002 amounted to P0.31. Net income of P2,914 for the year ended December 31, 2002 was divided by the weighted average number of shares outstanding of 9,375,000,000.

Basic EPS for the year ended December 31, 2001 amounted to P0.13 which reflected the effect of the change (see Note 6) that increased EPS by P0.11. Net income of P1,224 for the year ended December 31, 2001 was divided by the weighted average number of shares outstanding of 9,375,000,000.
Loss per share for the year ended December 31, 2000 of P0.11 as previously reported was restated for the effect of the accounting change (see Note 6) that increased previously reported loss per share by P0.16 for 2000. Loss per share for the year ended December 31, 2000 amounted to P0.27 as restated. Net loss of P2,549 for 2000, as restated, was divided by the weighted average number of shares outstanding of 9,375,000,000.

20. Supplemental Disclosures of Cash Flow Information

<table>
<thead>
<tr>
<th>Changes in operating assets and liabilities:</th>
<th>2002</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease (increase) in assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables - trade</td>
<td>1,062</td>
<td>156</td>
<td>3,588</td>
</tr>
<tr>
<td>Inventories</td>
<td>69</td>
<td>1,093</td>
<td>950</td>
</tr>
<tr>
<td>Other current assets</td>
<td>254</td>
<td>49</td>
<td>88</td>
</tr>
<tr>
<td>Increase (decrease) in liabilities:</td>
<td>1,702</td>
<td>2,349</td>
<td>2,362</td>
</tr>
<tr>
<td>Liabilities for crude oil and petroleum product importation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>393</td>
<td>637</td>
<td>268</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|                                           | 2002 | 2001 | 2000 |
|                                           | 62   | 4,304| 2,312|

21. Financial Instruments

Petron uses commodity price swaps to protect its margin on export and domestic sales of industrial and jet fuel oil products. The cost base of Petron’s industrial and jet fuel is that of the crude oil, most of which is supplied by Saudi Aramco and is priced based on Dubai/Oman crude price. On the other hand, the selling price of the industrial and jet fuel is based on Singapore’s Mean of Platts (MO PS). Under the commodity price swaps, Petron and its counterparties agree to a monthly exchange of cash settlements based on a specified reference price, depending on the commodity being hedged. For swap agreements that hedge the price risks on industrial and jet fuel oil products, Petron is the floating rate payer and the reference price index is the monthly average MO PS. For swap agreements that hedge the price risks on crude oil, Petron is the fixed rate payer and the reference price index is Dubai crude price. The swap agreements effectively hedge Petron’s margin on industrial and jet fuel oil.

As of December 31, 2002 and 2001, Petron has outstanding commodity price swaps covering industrial fuel oil with an aggregate notional quantity of 120,000 and 565,277 metric tons (MT), and weighted average fixed rates of US$156 and US$115.37 per MT, respectively. The net mark-to-market gains (losses) on these swaps amounted to P26 and P4,304 in 2002 and 2001, respectively. Petron also entered into deliverable and non-deliverable short-term currency forward contracts to hedge its foreign currency exposure on crude oil importations. As of December 31, 2002 and 2001, Petron has outstanding currency forward contracts with an aggregate notional amount of US$59 and US$125, and weighted average contracted forward rates of US$25.17 and US$18.96 per barrel, respectively. The net mark-to-market losses on these currency forward contracts amounted to P31 and P72 in 2002 and 2001, respectively.

Under current accounting practice, the unrealized mark-to-market losses on the outstanding derivative contracts as of December 31, 2002 and 2001 are presented for disclosure purposes only and are not included in the determination of net income.

22. Registration with the Board of Investments (BOI)

Petron is registered with the BOI under the New Omnibus Investments Code of 1987 (Executive Order 226) as a pioneer, new producer status of Mixed Xylene. Under the terms of its registration, Petron is subject to certain requirements, principally that of producing required metric tons of Mixed Xylene every year.

As a registered enterprise, Petron is entitled to the following benefits on its Mixed Xylene operations:

a. Income Tax Holiday (ITH) for six years from February 2000 or actual start of Mixed Xylene commercial operations (December 5, 1999), whichever comes first but in no case earlier than the date of registration;

b. Tax credits for taxes on duties on raw materials and supplies used for its export products and forming parts thereof; and,

c. Simplified custom procedures and others.


23. Segment Information

Petron’s major sources of revenues are as follows:

a. Retail sales, offering gasoline, diesel, and kerosene to motorists and public transport operators through its service station network around the country;

b. Lube sales, offering lubes, greases and oxidized asphalt to its customers;

c. LPG sales, selling Petron’s own branded LPG (Gasul) to consumers through a dealership network; and,

d. Industrial trade, catering to bulk fuel oil and diesel requirements of its customers in power generation, construction, land, air and marine transport, fishing and various manufacturing sectors.

Petron’s export sales comprise 11.7%, 7.4% and 12.6% of its total sales in 2002, 2001 and 2000, respectively.

Petron’s management is in the process of enhancing its financial and management reporting system to better align with its operations and to enable Petron to come up with relevant segment information. Once completed, Petron expects to monitor and report its results of operations based on relevant segmentation.
24. **Other Matters**

a. In 1998, Petron contested before the Court of Tax Appeals (CTA) the collection by the Bureau of Internal Revenue (BIR) of deficiency excise taxes amounting to ₱1,108 representing back taxes, surcharge and interest arising from Petron’s acceptance and use of Tax Credit Certificates (TCCs) worth ₱659 from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, Petron was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the CTA where the case is still pending.

In November 1999, the Department of Finance (DOF) Center ExCom cancelled Tax Debit Memos (TDMs) worth ₱475, the related TCCs and their assignments. The BIR implemented this with a letter of assessment worth ₱659 deficiency taxes (inclusive of interest and charges) for the years 1995 to 1997, as a result of the cancellation. Petron contested on the grounds that the assessment has no factual and legal basis and that the cancellation of the TDMs was void. Petron elevated this protest to the CTA on July 10, 2000 where the case is still pending.

In January 2002, the BIR issued another assessment worth ₱399 deficiency taxes (inclusive of interest and charges) for the years 1995 to 1998, as a result of the cancellation of TCCs and TDMs by the DOF Center ExCom. Petron protested this assessment on the same legal grounds used against the tax assessment issued by the BIR in 1999.

On April 6, 2000, the Office of the Ombudsman (Ombudsman) filed cases before the Sandiganbayan Court (Court) against former public officials and private individuals, including some Company officials. The complaints alleged that these officials conspired with officials of DOF, BIR and the Bureau of Customs and with private individuals to defraud the government by accepting fraudulently issued TCCs worth ₱615 and thereafter, by using these TCCs in payment of taxes. After the Court reconsidered in 2001 its ruling to dismiss these cases, no arraignment of most of the Company officials has been made.

Acting on the December 13, 2001 complaint of the Special Presidential Task Force 156 on the “TCC anomalies”, the Ombudsman filed with the Court in 2002 Anti-Graft and Corrupt practice cases against DOF officials and private individuals including a former Petron officer. As in other cases, the former Petron officer signed the Deeds of Assignment as official signatory of Petron. The Ombudsman has classified the complaint as one of violation of the Anti-Graft and Corrupt Practices Act. The arraignment of the accused in these cases has been reset to March 6, 2003.

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

Petron maintains that it has not been involved in the issuance of these TCCs 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. Petron 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, Petron issued an equivalent credit note that was used to pay for fuel products of Petron.

b. Petron has unused letters of credit totaling approximately ₱5 as of December 31, 2002 and ₱3 as of December 31, 2001.

c. Implementation of RA No. 8749, “Philippine Clean Air Act of 1999”

On November 25, 2000, the Implementing Rules and Regulations (IRR) of the Clean Air Act took effect. The IRR contains provisions that have an impact on the industry as a whole, and to the Company in particular, compliance from which needs to be implemented within 44 months (or July 2004) from the effectivity date, subject to approval by the Department of Environment and Natural Resources. Based on the initial assessment made, Petron has been complying with these specifications. Petron is also currently evaluating the feasibility of investing in an Isomerization Plant to enable the Company to locally produce the required benzene and aromatics specifications for gasoline. Similarly, Petron is also evaluating additional investments on gas oil hydrotreater facilities to comply with the 0.05% requirement on automotive diesel by 2004.

d. Scale Down of Pandacan Terminal Operations

Petron, along with two other major industry players, Shell and Caltex, signed a Memorandum of Understanding (MoU) with the City of Manila and the Department of Energy in June 2002 to scale down the Pandacan Terminal operations. The salient points of the MoU include the removal of a total of 28 storage tanks, creation of safety and green buffer zones, and the establishment of joint operations.

As of December 31, 2002, the three oil companies have dismantled 13 storage tanks, representing 46% of the committed 28 tanks. Work on the safety and green buffer zones on the Shell and Petron sides are already underway. A basic agreement has also been reached with regard to a joint venture company that will integrate operations at the Pandacan Terminal.

The Petron facilities affected by the scaling down of its Pandacan Terminal operations substantially have fully depreciated amounts, and thus have no material asset impairment impact.
List of Banks and Financial Institutions

Banco de Oro
Bank of the Philippine Islands
China Banking Corporation
Chinatrust (Phils.) Commercial Bank Corp.
Development Bank of the Philippines
Equitable PCI Bank
Land Bank of the Philippines
Metropolitan Bank and Trust Company
Philippine National Bank
Rizal Commercial Banking Corporation
Security Bank Corporation
Union Bank of the Philippines
United Coconut Planters Bank

ABN Amro Bank
Australia and New Zealand Banking Group, Ltd.
Banco Santander Phils. Inc.
Bank of New York
BNP Paribas
Citibank, N.A.
Credit Lyonnais
Deutsche Bank
Development Bank of Singapore
Hong Kong and Shanghai Banking Corporation
ING Bank, N.V.
JP Morgan Chase Bank
KBC Bank, N.V.

JP Morgan Asia Limited
Citcorp International Limited
ING Barings
Saudi American Bank
Arab Petroleum Investment Corporation
Bank al-Jazira
Hua Nan Commercial Bank, Ltd., Singapore Branch
Mizuho Corporate Bank, Ltd., Hongkong
Norddeutsche Landesbank Girozentrale, Singapore
United World Chinese Commercial Bank
Sumitomo Mitsui Bank Corporation, Hongkong
The Arab Investment Company S.A.A.
The Bank of Tokyo-Mitsubishi Ltd., Labuan Branch
The Saudi Investment Bank
NICASIO I.
ALCANTARA
Chairman and Chief
Executive Officer.
Currently serves as
Director in various
corporations of the
Alcantara Group of
Companies.

MOTASSIMA,
AL-MA’ASHOUQ
President. Was
President and Chief
Executive Officer of the
Saudi Arabian
Lubricating Company in
2000. Served as Vice
President and a Director
of Petron Corporation

BOB D. GOTHONG
Non-Executive
Director. Currently
the Chairman and CEO
of Gothong Southern
Logistics and One
Wilson Place Holdings,
Inc. and Vice Chairman
of William, Gothong &
Aboitiz, Inc.

DOUHAN H.
AL-DOUHAN
Independent
Director. Was a retired
Executive Director of
Management Services
Organization of Saudi
Aramco.

FRANCISCO L.
VIRAY
Non-Executive
Director. Currently
Senior Executive VP of
Union Cement
Corporation, Vice-
Chairman of the Board
of Trans-Asia Power
Generation
Corporation, and
Chairman and President
of the Cement
Manufacturers
Corporation.
JOSE LUIS U. YULO, JR. Independent Director. Currently the Chairman/CEO of Insurance of the Philippine Islands Co., Inc., and Philippine Exhibits and Theme Parks Corporation. Also the President/CEO of One Card International Co./"Mastercard" and Centrex Corporation/Octanorm Philippines.

ABDULLATIF A. AL-OTHMAN Non-Executive Director. Currently the Vice President of Saudi Aramco Affairs and was a Manager of Crude Oil Sales & Marketing Department.

ZIYAD M. AL-SHIHA Executive Director. Currently the VP for Corporate Planning. At Saudi Aramco, he was responsible for overseeing major oil and gas facilities.

BERNARDINO R. ABES Non-Executive Director. Currently the Chairman of the Social Security Commission.

KHALID D. AL-FADDAGH Non-Executive Director. Serves as Manager of Facilities Planning Department of Saudi Aramco.
Management Committee and EXECUTIVE OFFICERS

NICASIO I. ALCANTARA
Chairman and Chief Executive Officer

MOTASSIMA. AL-MA’ASHOUQ
President

WALTER A. TAN
Vice President for Supply and Operations

JOSE K. CAMPOS
JR. Vice President for Marketing

ALFRED A. TRIO
Vice President for Refinery
Bulk Plant
DIRECTORY

METRO MANILA

NAIA
JO CASP, CPD, N AIA, Pasay City
(02) 833-7084/831-5842

NAVOTAS
PFDA, C.N.MPD, N avotmas, M.M.
(02) 281-4826 / 281-1297

PANDACAN
Jesus St., Pandacan, Manila
ADMINISTRATION
(02) 563-3134/3129/8521
DISTRIBUTION
(02) 563-3134/3129/8522
BULK/LUBEOIL
(02) 563-8521

PASIG
Bo Ugong, Pasig City
(02) 673-1744 / 671-9817
(02) 671-9820

LUZON

LAOAG
Laoag Airport
(077) 772-1873

LEGASPI
Lakandula Drive, Brgy.
Bonot, Legaspi City
(052) 480-8113

LIMAY
Petron Bataan Refinery,
Limay, Bataan
(02) 886-3187-96 loc. 390-394/
397/398

PALAWAN
Puerto Princesa City, Palawan
(048) 433-2682 / 433-3329

PASACAO
Brgy. Camangli, Pasacao,
Camarines Sur
(054) 513-9258

PORO
Poro Pt., San Fernando, La Union
(072) 242-6032-33 / 242-6034

ROSARIO
Rosario, C.alte
(046) 438-2860 / 438-1996

SAN FERNANDO
San Fernando, Pampanga
(045) 961-3564

SAN JOSE
Airport Rd., San Roque,
San Jose, O cc. Min.
(043) 491-1938

TAGBilaran
Graham Ave., Tagbilaran, Bohol
(038) 411-3397

VISAYAS

AMLAN
Tandagay, Amlan, N egros O riental
(035) 527-0790 / 527-0159 /
417-0795

BACOLOD
Bo. San Patricio, Bacolod City
N egros O cc.
(034) 433-9690 / 433-9687 to 89

ILOILO
Lapuz, Iloilo City
(033) 337-6895 / 337-5312 /
338-1893

ISABEL
Lor E. Isabel, Leyte
(053) 556-0177

MACTAN
MEPZ, Lapu-lapu City
(032) 340-4620 / 340-4692

MINDANAO

BAWING - GENERAL SANTOS
Bawing, General Santos City
(083) 555-0828 / 555-0766

BULA - GENERAL SANTOS
Bula Marrow Blvd., Gen. Santos City
(083) 301-1988 / 301-2015

DAVAO
Sasa, Davao City, Davao del Sur
(082) 234-2185-86 / 233-0399 /
234-1582
Davao Airport
(082) 234-2185-86 / 233-0399 /
234-1582

ILIGAN
Bo. Tuminobo, Iligan City, Lanao del N orte
(063) 492-0653 / 516-704 /
221-5264

JIMENEZ
Jimenez, Misamis O ccidental
(088) 272-3230 / 272-3243

NASIPIT
Takay, N asipt, Agusan del N orte
(085) 283-3126 / 343-2218-19

PARANG
Parang, Maguindanao, Cotabato
(064) 425-0024-25 / 425-0030

TAHOLOAN
Tagoloan, Misamis O riental
(08822) 740072

ZAMBOANGA
Lower Calarian, Zamboanga
(062) 991-1245 / 991-1571 /
991-4352
Directory of

DEPOTS AND TERMINALS

LEGEND

- Refinery
- Sales Office
- Terminal
- Bulk Plant
- Gasul Bulk Plant
- Airport Installation

- APARRI B/P
- LAOAG CITY A.I.
- PORO B/P
- LIMAY TERMINAL

- PANDACAN/NAVOTAS
- REFINERY

- NAIA A.I.
- ROSARIO TERMINAL

- BATANGASTERMINAL
- CALAPAN S.O.
- JAN JOSE S.O.

- ROXAS B/P
- ILOILO B/P
- BACOLOD B/P

- PALAWAN B/P
- MACTAN A.I.

- VISMIN S.O.
- MANDAUE B/P
- AMLAN B/P
- JIMENEZ B/P

- ZAMBOANGA B/P

- SAN FERNANDO (GASUL)
- PASIG (GASUL)
- PASACAO B/P
- LEGASPI B/P

- TACLOBAN B/P
- ISABEL B/P
- ORMOC B/P
- TAGBILARAN B/P

- ILIGAN B/P
- TAGOLOAN B/P
- NASIPIT B/P
- PARANG B/P

- DAVAO B/P
- DAVAO CITY A.I.
- GEN. SANTOS B/P
**List of PRODUCTS**

**FUELS**
- Gasol
- Aviation Gasoline
- Petron Blaze
- Petron XCS Plus with Valvemaster™
- Premium Unleaded with XCS
- Regular Unleaded Jet A - I
- Petron Gas
- Petron Diesel Max
- Petron XCS Plus with Valvemaster™
- Premium Unleaded with XCS
- Regular Unleaded Jet A - I
- Petron Gas
- Petron Diesel Max
- Petron Fuel Oil
- Petron Intermediate Fuels
- Petron Special Fuel Oil
- Straight - Run Fuel Oil
- Gas Turbine Fuel
- IF - 1

**AUTOMOTIVE LUBRICATING OILS**
- Automotive Engine Oils
- Commercial Engine Oils
- Rev-X All Terrain
- Rev-X Trekker
- Rev-X Hauler
- Rev-X HD
- Petron XD 2040
- Petron 2T
- Petron railroad Extra
- Service Station Engine Oils
- Ultron Race
- Ultron Rallye
- Ultron Touring
- Ultron Extra
- Petron MO
- Two-stroke Motorcycle Oils
- Petron 2T Premium
- Petron 2T Autolube
- Petron 2T Powerburn
- Straight Mineral Oil
- STM
- Automotive Gear Oils and Transmission Fluids
- Automotive Gear Oils
- Petron GX
- Petron GEP
- Petron GST
- Automotive Transmission Fluids
- Petron ATF Premium
- Petron TF 38
- TDH 50

**INDUSTRIAL LUBRICATING OILS**
- Turbine, Hydraulic and Circulating Oils
- Hydrotur AW X
- Hydrotur AW
- Hydrotur AW (GT) 32
- Hydrotur R
- Hydrotur TEP
- Hydrotur N 100
- Hydrotur SX 32
- Hydrotur SX 68
- Hydrotur SX 220
- Hydrotur T
- Industrial Gear Oils
- Hypex EP (Oil-based)
- Hypex EP (Asphalt-based)
- Miroil 5K
- Gearfluid
- Gearkote
- Cutting Oils
- Turnol
- PETROKUT 10
- PETROKUT 27
- Refrigeration Oils
- Zerlo 68
- Suniso 3G5 and 4Gs
- Other Industrial Lubricating Oils
- Petrocyl S
- Petrocyl 680
- Airlube
- Spinol 15
- Spinol 10E
- Petroxine 68
- Voltran

**ASPHALT S**
- Penetration Asphalts
- Petropen
- Cutback Asphalts
- Petrokote
- Emulsified Asphalt
- Petromul CSS - 1
- Blown Asphalts
- Asphaltseal
- Asphalt Joint Sealer

**MARINE LUBRICATING OILS**
- Marine Cylinder Oils
- DCL 100
- Petromar S
- Marine Trunk Piston Engine Oils
- Petromar X 5540
- Petromar X 4040
- Petromar X 3000 Series
- Petromar X 2000 Series
- Petromar X 1500 Series
- Petromar X 1000 Series
- Petromar HD Marine

**GREASES**
- Multipurpose Greases
- Molygrease Premium
- Petrogrease Premium
- Petrogrease MP
- Greases for Extreme Pressure Conditions
- Petrogrease EP
- Molygrease EP2
- Molygrease EP IP and EP 2P
- Petrogrease EP 290 and EP 375
- High Temperature Grease
- Petrogrease HT
- Chassis Grease
- Petrogrease XX

**AFTERMARKET SPECIALTIES**
- Petron Oil Saver
- Engine Oil Improver
- Lubritop
- Diesel Power Booster
- Petron Engine Flush
- Petron DOT-3 Brake Fluid
- Super Coolant
- Super Coolant Plus
- Petromate
- Greaseaway
- O verglide
- Bull's Eye
- 30 SM

**AVIATION LUBRICANTS**
- Braycote 622
- Nyco Grease GN 22
- Hydrauynco FH 51
- Royco 481
- Aviation O il EE
- Invarol FJ 13
- Exxon Turbo O il 2389
- Exxon Turbo O il 2380
- Univis J-13
- Turbonycoil 35M

**SPECIAL PRODUCTS**
- Process Aids
- Process O ils
- Distillate MP
- Product 50 R
- Jute Batching O il
- Printsol 600
- Rubbex 130
- Petron Dust Stop O il
- A idro O il
- Stelow
- Solvents
- Solvent 3040
- Solvent 1425

**OTHERS**
- Naphtha
- Reformate
- Mixed Xylene
Information and ASSISTANCE

Petron Corporation
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1358 Sen. Gil Puyat Avenue
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Fax Number : (63 2) 886-3064
Website : www.petron.com
Email : contactus@petron.com

Shareholder Services and Assistance
For questions or comments regarding dividend payments, change of address, account status, lost or damaged stock certificates, please get in touch with:

Stockholder Services Section
Public Affairs Department
39/F Petron MegaPlaza
358 Sen. Gil Puyat Avenue
Makati City 1200 Philippines
Tel N o. (63 2) 886-3888
Fax N o. (63 2) 886-3064

Or with our stock transfer agent:

Stock Transfer Service, Inc.
5/F Phinma Plaza
39 Plaza Drive, Rockwell Center
Makati City 1200 Philippines
Tel N o. (63 2) 898-7555
Fax N o. (63 2) 898-7598

Institutional Investor Inquiries
Petron Corporation welcomes inquiries from analysts, the financial community, and institutional investors. Please write or call:

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Tel N o. (63 2) 886-3888
Fax N o. (63 2) 886-3064 / 886-3094
Email varuivivar@petron.com

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