COVER SHEET

PETRON CORPORATION 20050445-473
(Company's Full Name)

Petron Mega Plaza, 358 Sen. Gil Puyat Ave., Makati City, Philippines
(Company's Address)

886-3888
(Company's Telephone Number)

December 31, 2005
(Fiscal Year Ending)
(Month & Day)

July 26, 2004
(Annual Meeting)

SEC FORM 17-A

(FORM TYPE)

(Amendment Designation if Applicable)

(Secondary License Type, if any)

LCU

Cashier

DTU

31171
S.E.C. Reg. No.

Central Receiving Unit

File Number

Document I.D.

REPUBLIC OF THE PHILIPPINES
OFFICE OF THE PRESIDENT

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended December 31, 2004

2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801

4. Exact name of registrant as specified in its charter PETRON CORPORATION

5. Philippines
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. 358 Senator Gil Puyat Avenue, Makati City
Address of principal office
1200
Postal Code

8. (0632) 886-3888
Registrant's telephone number, including area code

9. N/A
(Former name, former address, and former fiscal year, if changed since last report.)

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	9,375,104,497 Shares

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

Yes [X] No [ ]

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

Philippine Stock Exchange	Common Stocks

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [X] No [ ]

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

Yes [ ] No [X]

13. The aggregate market value of the voting stock held by non-affiliates of the Registrant is P30.5 billion based on the PSE price of P3.25 as of December 29, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I - BUSINESS AND GENERAL INFORMATION

(A) Business Development

General Information

Petron

Incorporated in the Philippines in 1966 as Esso Philippines, Inc., Petron Corporation is the largest refiner and marketer of petroleum products in the Philippines. The company was renamed Petrophil Corporation in 1973 when the Philippine National Oil Company (PNOC) acquired Esso. In 1985, Petrophil Corporation and Bataan Refinery Corporation (formerly the Standard Vacuum Refining Corporation) were merged with Petrophil as the surviving Corporation. Petrophil later changed its corporate name to Petron Corporation.

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

Subsidiaries

At present, Petron has six subsidiaries, namely:

- New Ventures Realty Corporation (NVRC) is a realty firm established on August 24, 1995. The company was then equally owned by Petron and the Retirement Fund. However, in June 2003, Petron increased its share to 79.95%. It is authorized to acquire and develop lands but it does not engage in the subdivision business. Lands suitable for use as service station sites, bulk plants or sales offices are purchased by NVRC. *These lands are leased to Petron for use in the latter's operation. A wholly* owned subsidiary of NVRC, Las Lucas Development Corporation was acquired in July 2003.

- Petrogen Insurance Corporation or Petrogen is a wholly owned subsidiary of Petron Corporation incorporated on August 23, 1996. It serves the insurance requirements of Petron and its allied business partners such as contractors, suppliers and dealers. Licensed by the Insurance Commission in November 1996, Petrogen has the authority to issue policies on fire, marine, casualty and bonds. Insurance provided excludes life insurance. In 2001, it was granted authority to cover insurance for accidental death and dismemberment, travel and directors' and officers' liability.

- Overseas Insurance Corporation or Ovincor was incorporated on November 16, 1995 under the laws of Bermuda for the purpose of expediting the reinsurance of Petron's insurable interests as covered by Petrogen Insurance Corporation. Reinsurance includes the insurance cover for the Refinery, the bulk plants and service station properties, petroleum and cargo insurance and performance bonds for Petron contractors and haulers as well.

- Petron Foundation, Inc. (PFI) was incorporated on July 25, 1996. PFI was created to function and operate as a charitable and research foundation; to handle social, environmental, and music and arts development projects of Petron; to institutionalize and intensify Petron's active involvement in corporate and social responsibility projects; to support scholarship programs for financially-handicapped but deserving students; and to participate in other social projects supported by Petron.
- Petron Freeport Corporation (formerly Petron Treats Subic, Inc) was incorporated on November 6, 2003. It is a Petron subsidiary empowered to, among others, sell on wholesale or retail fuels such as gasoline, kerosene, diesel, LPG, lubricants and greases as well as operate retail outlets, restaurants, convenience stores and the like. The company has its principal office at the Subic Bay Metropolitan Area (SBMA), and operates Petron's "mega station" at the SBMA.
- Petron Marketing Corporation (PMC) was incorporated on January 27, 2004 with the same business purpose as the Petron Freeport Corporation. The Retail Trade Liberalization Act paved the way for Petron to form a direct-retailing subsidiary. The new subsidiary will operate company-owned, company-operated (COCO) service stations. It will offer a complete range of fuel products. The COCO stations will play a major part in launching market initiatives to strengthen the Petron brand and will give Petron the opportunity to quickly introduce innovations beyond the present services that are available in Petron stations.

Operating Highlights

Marketing

For the last three years, Petron Corporation has maintained its market leadership. In 2004, its market share in the entire industry was 37.7%.

Compared to 2003, Petron's total domestic sales increased by 14% which is accounted for by a 6.3% increase in Reseller sales, 24.4% in Industrial Trade and a rise in the National Power Corporation's (NAPOCOR) demand by 22%. The large increase in Industrial sales was due mainly to the acquisition of new accounts. Notable contributions came from domestic marine and aviation.

On the other hand, sales volume for Gasul and Lubes decreased. Nonetheless, Gasul remained the single biggest player in the LPG market with a share of 26.5%. While in the Lube Trade, despite the decline in sales, our market share still grew by 1.1%.

We are continuously improving our specialty products. In 2004, Lube Trade re-launched three specialty products under the Petromate brand. These are Diesel Power Booster, Oil Saver and Engine Flush. Two brands of automotive engine oils-Ultron for gasoline engines and Rev-X for diesel engines and 2T for motorcycle engines were reformulated in the past years for better performance and cost efficiency.

Petron expanded its nationwide marketing network. The following are the additions to its sales outlets:

- In 2004, it established 51 stations and by the end of the year, it had 1,204, an increase over 1,159 in 2003. It continues to account for 30% of the total service stations in the country.

- Under its direct retailing program, the company opened two new company-owned and operated service stations.

- It also put up five new convenience stores (Treats) bringing the total to 37. Furthermore, there are eight additional locators. Income from these outlets in commissions increased by 30% over last year.

- *Additional branch stores were put up by the Gasul dealers during the year.* Dealers in the Visayas implemented the home delivery service after it was introduced in Metro Manila. The number of AutoGasul refilling stations has also increased to four with the Expressfill Service Station at Sen. Gil Puyat Ave cor. Makati Ave. as the latest addition. Taxi units were fitted with the Auto Gasul conversion kits this year.

- Petron continued to appoint new lube distributors and opened the Iloilo Lubricants Sales Center as a Petron Sales Center for lubes. It also got the contract to supply the lube needs of several of the National Power Corporation's(NAPOCOR) plants and supplied the full year requirement of an oil marketing company in bulk product for rebranding.

The Petron Fleet Card closed the year with a hefty increase in cardholder base generating a substantial increase in sales from 2003. The number of Petron BPI-Mastercard cardholders also grew almost 100% compared to the 2003 level.

In response to government's mandate to assist the public transport sector, Petron participated in the Department of Energy's (DOE) discounted diesel program for public utility jeepneys. Starting September 1, 2003, discounts were given in selected stations in Metro Manila. Special diesel prices were also given to bus operators in Metro Manila.

As in the past two years, the company again held its ArtPetron. The theme was Lumang Ani, Bagong Sali.

Petron received honors for the print category in the Ad Board of the Philippine's 2004 Araw Values Awards.

Refinery

Petron's Bataan Refinery (PBR) has been implementing programs which has improved its processing efficiency and operational availability. These programs are as follows:

- Profitability Improvement Program (PIP) resulted in higher production of high valued Mixed Xylene, Diesel and LPG.

- Energy Efficiency Project resulted to reduction and optimization of Refinery energy consumption.

- Plant Reliability Excellence Program resulted to an extension of the turnaround cycle and reduction of maintenance and repair expenses.

- Refinery's Power System Reliability Improvement Program addresses the power requirements of our new Clean Air Act facilities, mitigates the impact of NPC power upsets to the refinery operations and ensures the long-term reliability and availability of the Refinery's electrical system. The first part of the program was implemented in 2004 and will be completed in November 2005. The second part is a three-year plan for upgrading the Refinery electrical system and facility.

- The Offsites Automation Project which includes product metering and tankage inventory management was completed in October 2004 and is expected to be fully operational by the second quarter of 2005.

The Refinery has been very aware of its public responsibilities with regard to meeting regulatory requirements and public issues and concerns. The components of its Corporate Social Responsibility Program include:

- Compliance with the Clean Air Act:

    - PBR started producing Automotive Diesel Oil with 0.05wt%S in November 2003 ahead of the date required by law which was January 2004. The new Gas Oil Hydrotreater unit (GOHT3) that is capable of desulfurizing diesel oil to 0.05 wt% sulfur level to meet CAA requirement, is 93% complete by end of 2004. This process unit will provide Petron full capability to produce the Automotive Diesel demand without importing.

    - In December 2004, Petron became the only local refinery with an LVN Isomerization (LVN-Isom) Unit capable of producing gasoline compliant to the Philippine Clean Air Act requirements of 35% aromatics and 2% benzene content.

    - The Department of Environment and Natural Resources (DENR) granted PBR a permit to operate the Air Pollution Source and Control Installation from July 2004 to June 2005. DENR also gave the refinery a one-year permit to operate its housing's sewage treatment plant from July 2004 to June 2005. This wastewater treating plant consistently meets effluent standards.

- Compliance with the Clean Water Act: - The restoration of the Caustic Neutralization Unit was completed in January 2004.

- Compliance with the Solid Waste Management Act: - The construction of Solid Waste Handling Facility at the plant site was completed last July 2004. Other than segregation and proper disposal/handling, waste minimization is the focus of the Refinery's solid waste management program.

- On September 14, 2004, PBR received ISO 14001:1996 certification of its Environmental Management System (EMS) covering Crude Oil Receipt to Manufacturing Process up to Distribution of Product via Pier from TUV Management Services Gmbh. This is valid up to September 2007, subject to annual surveillance audits.

- The Refinery also maintains programs to strengthen local community relations. In 2004,

    - The Refinery accommodated 1,838 students for on-the-job training, DOLE's Special Program for Employment of Students, and Refinery Plant Tours.

- It also conducted a Medical-Dental Mission in Barangay Alangan last September 11 and a Medical Mission at Abucay, Bataan, and took a leading role in the coastal clean-up effort (*Kontra Kalat Sa Dagat)* which was conducted at the shoreline of Pilar, Bataan last September 18.

- For the protection of the Refinery's personnel and facilities, PBR is pursuing its Plant Safety and Security Program. This program addresses identified gaps in plant safety management and fire-fighting best practices. In addition, the five-year Comprehensive Security Development Plan, which was started in 2002 in response to heightened terrorist activities, is being implemented.

- An organizational transformation program called the Survival Thru Excellence Program (STEP) - which was adopted in the second half of 2002 and is geared towards attaining PBR's vision to be "Best- in-Class" by 2005. Initiatives implemented for the program include the transition of the Refinery's organization into a team-based organization, establishment of an HR department, implementation of Total Quality Management program, and the integration of a goal-setting mechanism in the Performance Management System. For 2004, the HR Department spearheaded the promotion of *Kaizen culture among the Refinery's workforce through the Continuous Improvement* and Productivity Program, enhancement of the Performance Management System, the facilitation of leadership development and personal effectiveness workshops, various technical trainings and wellness programs.

Supply and Operations

In December 2003, Petron inaugurated its Pandacan Linear Park, which will serve as an additional safety and security buffer zone for residents in the surrounding area. The establishment of the Linear Park was among the important commitments made by the three oil companies under a Memorandum of Understanding (MoU) they signed with the City of Manila and the Department of Energy in 2002. Other commitments under the MoU included the dismantling of 28 product storage tanks and the creation of a joint venture (JV) company that will operate the reduced facilities. In October 2004, Petron, Shell and Caltex signed the commercial and JV agreements. These agreements paved the way for the establishment of the Pandacan Depots Services, Inc. (PDSI), the JV company and operator of the Pandacan Terminal Complex. The operation of PDSI started in November. It is anticipated that the integration will result in higher asset utilization, lower costs and improved operating efficiencies.

The Mandaue Terminal logged 500,000 man-hours without lost time injury. Similarly, in 2003, the Rosario Terminal registered a 500,000 man-hours without lost time injury while the Pandacan Terminal attained 2.5 million which received recognition from the World Safety Organization (WSO). In the same year, the latter was also rated by international oil insurers as world-class in terms of safety commitment and culture.

Petron has been working for the ISO certification of its depots and terminals. In 2003, the Mandaue bulk plant was certified ISO9001:2000, the improved version of ISO9002:1994. By the end of 2004, 26 of the total 29 sites have been certified to the latest version of the ISO Quality Systems. This new version emphasizes the establishment of dynamic customer relationships.

Petron's 12 port locations, including the Bataan Refinery and Pandacan Terminal were granted International Ship Port Security (ISPS) certificates by the Department of Transportation and Communication.

One of the major programs implemented in 2004 was the monitoring of tank trucks while making deliveries through the use of Global Positioning System Technology (GPS). GPS receivers were installed in each of the contracted trucks at Pandacan Terminal, thus allowing two-way communication on real time basis. Computerized monitoring equipment has been put in place at the Dispatching Office to serve as the main control facility. This project is also expected to improve the visibility of trucks, thus allowing dispatchers to effectively plan the succeeding trips and assignment of customer orders. The HUNTER Project (Hauler Unit, Tracking, Evaluation and Reporting System) allowed monitoring of the movements of more than 200 contracted hauling units.

A 60,000 gallon LPG bullet tank was relocated to Palawan Depot. With this, Palawan now has 3 bullet tanks, with a total capacity of more than 300 MT. This will result in a reduction of transhipment costs.

A new aviation storage and into-plane facility in Davao Airport Depot was constructed and commissioned last July 2004. This gives customers the assurance of high-quality jet fuel and consistently prompt deliveries.

In coordination with Petron Foundation Inc., six Petron schools were constructed. These are located at Bataan, Tagoloan, Zamboanga, Basilan, Davao and Sarangani.

Twenty three depots and terminals participated in the *Kontra-Kalat sa Dagat* activities during the September 2004 Earth Day Celebration. Coastal clean-up and tree planting were among the activities participated by depot personnel, their families, local contractors, dealers and haulers.

Information Technology

Petron continued to work on the information technology (IT) strategy that was started in 2003. This is anchored on a five-point program:

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

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

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

In 2004, Petron partnered with Microsoft Corporation and implemented the firm's RMS point- of -sale (POS) system in eight Petron service stations. This will be deployed in a total of 43 service stations by the end of 2005.

The POS system makes use of scanners to record sales of bar-coded products at Treats stores. The system is also connected to dispensing pumps at the forecourt so that the volume and amount of fuel products dispensed for motorists are visible to the cashier from the cashier's booth for sales processing. The system also includes many backroom functionalities such as inventory monitoring, purchase order processing, in-house accounts processing, and sales analysis.

The system is linked to the Petron head office such that product assortment, prices, discounts/promotions and vendors from whom Treat stores may order products, are centrally managed and then disseminated to the various service stations. On the other hand, sales, purchasing, and inventory level information are uploaded every night from the service stations to the head office for consolidation and analysis purposes.

The POS system is expected to be a big aid in providing consistent and efficient customer service at service stations; in standardizing products, prices, and promotions; and in building a database of information that may be used for market sales analysis and rebates/commissions computation.

Human Resources

Petron's human resource programs continue to focus on aligning employees' competencies and values with the desired organizational capabilities, values and business directions. In 2004, the Human Resources Management Department (HRMD) continued to conduct in-house training programs which focused on the disciplines of business-mindedness, technical competencies and managing interfaces with customers. Work/life balance programs were also undertaken to promote health and camaraderie. Some of the programs conducted were:

- Petron 101- This provided the employees with the opportunity to have a better understanding of basic business processes so that they will be able to align their individual responsibilities with corporate objectives. It was also aimed at developing the consciousness of employees on current issues that affect the business and preparing them for their role in delivering the Petron brand of customer service.

- Partnership in Success- The employees simulated the role of top management in managing a business so they will appreciate the need to make decisions on capitalization, resource planning and allocation, financial management, etc.

- Customer Intimacy- This course was conducted for dealers and employees and was aimed at orienting them on the need to provide motorists with consistent good service at the stations.

To promote a harmonious work environment, the 15th session of the Labor Management Relations Seminar was conducted for employees of the Operations and Marketing Divisions.

Also in connection with labor relations, the 2004-2007 Collective Bargaining Agreement between Petron and the Petron Employees Labor Union (PELU) was signed last December 8, 2004.

In November 2004, Petron launched a new Vision, Mission and Values (VMV) to energize the organization and to realign the company's goals with the changed realities of the business landscape. HRMD followed this up with a series of sessions to impart the new VMV to employees in company offices and locations nationwide.

HRMD also published six electronic newsletters which featured employee events and included articles covering the human dimension of corporate work life. It also posted in the intranet videoclips of corporate events aimed at spreading corporate news and information to employees readily.

Health, Safety and Environment

The Health Safety and Environment (HSE) Management Committee has regularly carried out quarterly safety reviews and a thorough check-up of the facilities in different installations of the company. The HSE Committee visited two bulk plants in 2003, and five in 2004.

Aside from the HSE Management Committee, there is an Operations Safety Group which conducts safety inspections to assess compliance with established company safety policies and standards.

Different training programs on safety are continuously conducted.

In 2003, these included Basic Safety Training, Oil Spill Control, Petroleum Safety and LPG Handling seminars for its customers.

For 2004, the training programs conducted were :

- Basic Occupational Safety and Health Course - which was conducted by the World Safety Organization. Attendance in this course is a pre-requisite for accreditation of a contractor's Safety Officer as Occupational Safety and Health Practitioner with the Department of Labor and Employment's Bureau on Working Conditions. Starting 2005, all contractors and haulers applying for accreditation will be re-qualified on safety and health competence.

- Fire and Explosion Hazard Management (FEHM) and Quantitative Risk Analysis (QRA) - which were recommended by Resource Protection International as one of the means to improve the fire protection preparedness and response of the company. FEHM is a formalized approach to establish a site-specific, rationalized, relevant, and cost-effective policy to reduce potential fire and explosion consequences. While QRA is the development of a quantitative estimate of risk based on engineering evaluation and mathematical techniques for combining estimates of incident consequences and frequencies. It involves complex and extensive study on consequences modeling, probability data, vulnerability models/data, local weather and terrain conditions, and local population data.

The QRA is the first of a three part implementation of the recommendations from Resource Protection International. The second part is the conduct of the Fire and Explosion Hazard Management (FEHM) training. And part three is the development of a comprehensive pre-fire plan, as well as development for the phased implementation program for the upgrade of our fire protection facilities.

Corporate Social Responsibility

Petron Foundation Inc. (PFI) continued its programs in the areas of education, environment, health and human services.

Education:

- PFI marked the second anniversary of its "*Tulong Aral ng Petron*" program in 2004. During the year, a total of 2,060 children were given educational assistance to pursue elementary schooling. These scholars were enrolled in 80 public elementary schools in 12 cities and municipalities in Metro Manila. Furthermore, PFI adopted the Bright Minds Read-Beginning Reading Program (BMR-BRP), a reading enhancement program for Grade One students in selected public elementary schools participating in this endeavor through a partnership established between PFI and the Ronald McDonald House Charities (RMHC). RMHC will assist in the information, education and communications campaign of the BMR-BRP within the participating public elementary schools and the public in general. It will also sponsor the conduct of Project Joy - a gift-giving activity for underprivileged kids - every December.
- Under its "Petron School Program", PFI in collaboration with Petron's Operations group built three classrooms at Vicente Hizon Elementary School in Davao City and two in Looc Elementary School in Lamitan, Basilan in 2003. Three new schools or 12 classrooms were built in 2004. These are in Limay, Bataan; Pangyan, Sarangani, and Zamboanga City. So far, a total of six schools have been built by Petron.
- Still related to the "Petron School Program," PFI was among five Philippine organizations who partnered with The International Youth Foundation (IYF) in an alliance to improve education quality and enhance the life and employability skills of Filipino youth. The program "Education and Livelihood Skills Alliance" is getting support from the US Agency for International Development (USAID) to undertake a three-year initiative to benefit young people who live in the southern island of Mindanao including the Autonomous Region in Muslim Mindanao (ARRM). Under this program, Petron will build 17 schools until 2007.
- PFI continued with its other educational activities like "*Sa Aklat Sisikat*" which is a reading literacy program wherein the reading development of Grade 4 students are monitored.

Environment:

Environmental programs remain an essential part of the Foundation's corporate social responsibility work. *Kontra Kalat sa Dagat* and tree/mangrove planting are continuing activities. Petron employees joined in the clean-up of a major portion of the Manila Bay along Roxas Boulevard in celebration of the 18th International Coastal Clean-up Day.

Health and Human Services

Through Petron's *Lakbayanihan* Program, a total of 3,728 residents of Navotas were given free medical and dental treatment as well as medicines.

Petron also participated in relief operations (which included soliciting donations) for areas hard-hit by typhoons. Petron employees not only contributed relief items but also conducted relief operations in Camarines Sur, Nueva Ecija, and Bulacan while the Petron Dealers Association mobilized the service station network as drop-off points for relief items.

As in previous years, Project Joy was held in December 2004 to make Christmas a memorable day for 2,500 children of jeepney drivers and children from the DSWD shelter homes in Metro Manila. Also included were Petron *Tulong Aral* Scholars.

PFI received in March 2004 the Anvil Award of Excellence from the Public Relations Society of the Philippines and the Gold Quill Merit Award from the International Association of Business Communicators. It has also been recognized by the Philippine Business for Social Progress, the League of Corporate Foundations, Tri-Sectoral Group on Poverty, Department of Social Welfare and Development, Department of Education and Culture and the Department of Environment and Natural Resources as one of the leading advocates of corporate social responsibility.

(1) Business of Issuer

(a) Description of Registrant

(i) Principal products or services and their markets:

Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products, mainly for the domestic market. It supplies more than one-third of the country's petroleum product requirements. It sells a full range of refined petroleum products, including: industrial fuel oil, low-sulfur diesel, premium and regular gasoline, liquefied petroleum gas (LPG), aviation turbo fuel, kerosene, asphalt, butane, pitch, and two grades of solvent. Straight-run fuel oil, diesel, naphtha and asphalt are exported. Lubricating oils and greases are manufactured at Petron's Lube Oil Blending Plant at the Pandacan Terminal. When necessary, some refined petroleum products are imported.

The major markets in the petroleum industry are Retail, Industrial and LPG Trades. Mixed Xylene is another source of export revenues.

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

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

Sales Revenue

	Domestic	Exports	Total
2002, in million pesos	81,560	10,770	92,330
2002, in percent	88%	12%	100%
2003, in million pesos	96,472	14,265	110,737
2003, in percent	87%	13%	100%
2004, in million pesos	134,275	13,081	147,356
2004, in percent	91%	9%	100%

(iii) Distribution methods of products or services:

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

Sales to customers within the terminal's tributary area are withdrawn by a tank truck along with their fuel requirements.

Lubes and greases in various packages are also transported via container vans to bulk plants and terminals outside Metro Manila. Sales Centers are also established to market these products.

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

(iv) New products or services:

Petromate Engine Flush- This is a fast-acting system cleaner designed to remove harmful internal engine deposits. It is recommended for use before the regular change oil to help keep the engine clean for better performance. The major function of Petromate Engine Flush is to clean the lube oil crankcase by removing combustion and oxidation trash such as gummy and varnish-like deposits, sludges and other contaminants.

Automotive Diesel Oil (ADO) - The sulfur content of ADO was further reduced to 0.05% maximum in order to meet the requirements of the Clean Air Act. Petron has continued to produce 0.30% sulfur diesel (Industrial Diesel Oil) to meet the requirements of the industrial sector.

Rev-X Product Quality Upgrade-The quality level of Rev-X Trekker has been upgraded from API CH-4 to CI-4. This means that the product's special formulation enables it to provide added dispersancy and anti-wear protection. It is effective in sustaining engine durability, where EGR and other exhaust emission control devices are used - typically in high-end cars. Rev-X Trekker also meets the performance requirements of major American, European and Japanese OEM's.

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

A. Competitive Business Conditions

The country's Gross Domestic Product (GDP) grew by 6.1% in 2004, compared to 4.7% in 2003. The growth was attributed to continued strength in the services sector and recovery in industrial activity. The service sector, which accounts for about 44% of GDP, grew by 7.3% with double-digit growth in communication and a strong recovery in the transport sector due to the national election. Industry expanded by 5.3%. Major contributors to this are the manufacturing and construction groups, which also gained from election related activities. Also, the growth in the manufacturing sector was brought about by an increase in exports of 14%.

Oil Demand. With the strong recovery in the industry and transport sectors, demand for petroleum products increased by 1.9%. Based on preliminary figures from the Department of Energy, diesel and fuel oil, which comprise about 60% of total demand, increased by 3.2% and 8.7%, respectively. Premium gasoline also grew by 2.1% because of personal consumption expenditures and again because of the election.

Peso-Dollar Exchange Rate. The peso exchange rate against the US dollar averaged P56.04 in 2004 compared to P54.21 in 2003. The major factors that affected the peso include market apprehensions over risks of a sovereign credit rating downgrade and persistent concerns over the fiscal situation. The peso's decline, however, was tempered by inflows of OFW remittances and favorable export performance. The high peso-dollar rate implies higher operating and capital costs for Petron.

Inflation and interest rates increased. Inflation averaged 5.5% in 2004 vs. 3.0% in 2003. Supply-side factors mainly drove inflation i.e. increase in global oil prices which translated into higher cost of transport services and other goods, as well as the occurrence of typhoons and domestic supply constraints that affected the availability of certain food products.

Domestic interest rates also rose particularly in the fourth quarter with the 91-day t-bill rate averaging 7.8% compared to 7.5% in the previous quarter. For the whole year, 91-day t-bill rate averaged 7.3% versus 6.0% in 2003. The rise in interest rates reflected concerns over higher inflation, the fiscal deficit, and the risks of downgrade in the country's credit rating.

Price of Crude. Dubai crude prices averaged $33.63 per barrel, 26% higher than the $26.79 level in 2003. The uptrend was driven by a combination of demand and supply concerns, such as market uncertainty due to geopolitical events in major oil producing countries like Iraq, Nigeria and Venezuela; overall thin spare capacity; and sustained growth in oil demand particularly in China.

Tight Industry Competition. New players captured about 13% of the market (including direct imports by end-users). They have substantially gained in the LPG segment capturing about 43% of total sales. They have cornered about 13% of diesel and 10% of premium gasoline sales last year. New players have been very aggressive in extending discounts to customers, thus, putting pressure on margins.

Alternative Indigenous Fuels. Environmental concerns and the uptrend in oil prices further shored up moves towards promoting alternative fuels like natural gas, ethanol and coco-methyl ester (CME) fuel blends.

Natural gas continues to play prominently in government's energy programs. The natural gas sector is being afforded with incentives such as lower tariffs for equipment, subsidy programs and preferential routes/franchises for land transport.

Also, the Philippine and Thai governments are jointly working towards the formulation of harmonized regional fuel standards for ethanol-blended gasoline as alternative fuel.

Illegal trading practices. Cases of smuggling and illegal trading (e.g. "bote-bote" retailing, pilferage of LPG tanks) have increased following the market's deregulation. This has resulted in unfair competition among players.

Activism of Local Government Units (LGUs). The industry continues to be vulnerable to the growing activism of LGUs following the Pandacan Scaledown and temporary closure of Navotas bulk plant. Other bulk plant locations could be the object of similar moves.

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

B. Competitive Position

Petron's total market share for 2004 is 37.7% if we take into consideration the total industry. Shell and Caltex has 33.1% and 16.1%, respectively and the new oil players' share decreased from 14.0% in 2003 to 13.1% in 2004.

Among the various trades, Petron's market share was highest in Industrial with 41.8%. The remarkable increase of 24.4% compared to 2003 was due to the acquisition of new accounts. The rest of the pie was shared by Shell with 34.0%, Caltex with 14.7% and the new players with 9.5%. In the Reseller Trade, Petron is now the market leader with a 33.7% market share which was lightly higher than Shell (33.5%).

In the Gasul Trade, the new players garnered 43.1%. We had 26.5% which is higher than the Shell's 22.8% and Caltex' 7.6%.

Shell is the market leader in the Lube Trade with 38.1%, followed by Caltex with 32.0%. Our market share grew by 1.1%, bringing this to 29.9%.

C. Methods of Competition

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

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

Arab crude accounts for 91% of total crudes purchased in 2004 and the remainder was sourced from the Far East like Tapis, Miri and Belida. We have a supply agreement with Saudi Aramco which is in effect for 20 more years, and a crude supply agreement with Petronas that is renewed annually. For 2004, our contract with the latter was limited to Tapis, Dulang and Miri.

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

Sales to NAPOCOR account for about 13% of Petron's total sales. Loss of this account will impact on sales volume.

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

Since 1993, Petron has been leasing from PNOC certain parcels of land where its refinery and most of its bulk plants, terminals, service stations are located. Petron has also been leasing from New Ventures Realty Corporation some parcels of land where some of its depots, terminals and many service stations are located. Majority of the insurance policies of Petron for 2003 were placed with Petrogen Insurance Corporation. In 2003, Petron purchased 91% of its crude from Saudi Aramco, which is wholly owned by the Saudi Arabian Government.

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

a. Petron has trademark registrations for a term of 20 years for its Rev-X, AS, Petrogrease, Cablekote, Gearkote, Gearfluid, Gasulette, Gasulite, Gasulgrille, Gasul, Marinekote, LPG Gasul Cylinder 50 kg., Gasul and Device, LPG Gasul Cylinder 11 kg., Petron STM, Petron Autokote, GEP, Regatta, Petron Old Logo, Hypex, Extra, Petron Old Logo (Tradename), 2T, Turnol, Petromar HD, Spinol, Airlube, Hydrotur, Petromix, Voltran, Stemol, Petrocyl 680, Printsol 600, Overglide, Grease Away, Petrokut, Petron Railroad Extra, Rubbex, Petron Dust Stop Oil, Oil Saver, Petron HD, Petron HD3, DCL 100, Milrol, Petropen, Petron GST, Petron with XCS.

b. Petron has pending applications for registration of the following trademarks: Ultron, Oil Improver, Lubritop, Antimist, Power Booster, Grease Solve, Zerflo, Process Oils, Petron XD, TDH 50, Petron 2040, Petrotherm 32, Petrokote, Petrosine, Petron 2T Motorcycle Oil, Petromate with Logo, Petron Motor Oil, New Petron Logo, Automatic Transmission Fluid, Engine and Radiator Coolant with Radiator Device, Powerburn 2T, Gasulito with Stylized Letter "P", Gasulito (7kg.) Container, Petron HDX, Super DC, Molygrease, Petron GX, Asphaltseal, Petron TF, Ropgriz, Cable Lube, Petron DOT-3 Brake Fluid, Petron Engine Flush, Treats, Solvent 3040, Petron Radiator Cleaner, Adgas, Blaze, Ultimax, Petronconnects.com, LPG Gasul Cylinder 2.7 kg., "Your Friend on the Road", Petron Gasul 11-kg POL-VALVED Cylinder, Ultron Speed, Ultron Rallye, Rev-X Trekker, Rev-X Hauler, Rev-X HD, Bull's Eye, Ultron Race, Ultron Touring, Rev-X All Terrain, Petromul CSS-1, Ultron Extra, Clean 'n Shine, Sprint 4T, Xpert Diesel Oils, Ultimate Release from Engine Stress, Xpert sa Makina Express ang Kita, It's Oil You Need, Pchem, Petrocare, Penetrating Oil, Gas Saver, Super Coolant, Brake and Clutch, Lakbay Alalay, 2T Enviro with Oil Drop, Rover, Petron Freeport Corporation and Petron Marketing Corporation.

c. Petron has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and 2 flames, for Powerburn 2T, and for Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for 50 years after his death.

d. Petron has a license agreement with Pennzoil-Quaker State Company (Pennzoil) for a period of 5 years beginning January 1, 2004 with the exclusive right to manufacture, sell and distribute in the Philippines Pennzoil products. The agreement also includes the license to use Pennzoil trademarks in exchange for the payment of royalty fee based on net sales value.

e. Petron has Collective Bargaining Agreements with its three unions, namely: (a) Bataan Refinery Union of the Philippines (BRUP); (b) Petron Employees Labor Union (PELU); and (c) Petron Employees Association affiliated with the National Association of Trade Unions (PEA-NATU). The CBA with BRUP expired on April 30, 2004 and negotiations for its renewal are in progress. With PELU, the CBA was renewed for another three (3) years effective July 1, 2004 to December 31, 2007. The CBA with PEA-NATU will expire on December 31, 2005.

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

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

In compliance with the Philippine Clean Air Act of 1999 (R.A. No. 8749), Petron produces: (i) unleaded premium gasoline with an anti-knock index (AKI) of not less than 87.5 and Reid vapor pressure of not more than 9 psi; (ii) unleaded gasoline with aromatics not exceeding 35% by volume and benzene not exceeding 2% by volume; (iii) automotive diesel containing a concentration of sulfur not exceeding 0.05% by weight with a cetane number of not less than 50; (iv) industrial diesel containing a concentration of sulfur not in excess of 0.30%.

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

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

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

Clean Air Act (CAA). In compliance with the fuel standards set by this law, Petron embarked on the following major investments: Gasoil Hydrotreater and Isomerization Unit. These facilities will enable the company to produce the compliant fuels.

Further Tightening of Fuel Standards. The recent tightening of Regional Fuel Specs (sulfur limits in diesel) may also lead the Philippine Government to consider the further tightening of fuel specifications relative to current CAA-mandated standards. DOE is also reviewing a proposal to reduce industrial diesel specifications to 0.05% by 2009. A further tightening of diesel specs will necessitate additional investments in the refinery's desulfurization capacity.

Clean Water Act. Signed last March 2004, this law embodies a water pollution control policy to cover all water resources, such as inland surface waters, groundwater, estuaries, coastal and marine waters. Compliance with effluent standards could entail additional investments in wastewater treatment facilities to comply with stringent limits on discharges.

Increase in import duties on crude and petroleum products to 5% from 3%. Import duties were increased effective January 1, 2005, as embodied in Executive Order (E.O.) no. 336. The adjustment in duties was enacted to help address the fiscal deficit problem.

Proposed lifting of VAT exemptions on the sale or importation of petroleum products and raw materials for the manufacture of petroleum products . The proposal is aimed at increasing government revenues to help mitigate the fiscal deficit. Similar to EO 336 (increasing import duties to 5%), the lifting of VAT exemptions will redound to higher oil prices and consequently, higher costs of goods and services. This would dampen consumer demand, and consequently affect oil-intensive sectors like manufacturing and transport.

Proposed Rationalization of Tax Incentives for BOI-registered projects. The proposal is also among the recommended measures being pushed by Government to help address the fiscal deficit. If approved, this could limit the incentives that will be given to oil companies for refining and marketing investments registered with the BOI.

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

Every initiative or program the company undertakes would have a research and development aspect to it but it is not always a distinct component. Often, this element is integrated into the other aspects or operational levels of our program.

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

Compliance with the various environmental laws like the Clean Air Act, Clean Water Act, Solid Waste Management Act, etc. will definitely entail costs and additional investments on the part of the company which will in turn result to higher production costs and operating expenses.

(xiv)Total number of employees:

As of December 31, 2004, the company has seven Executives, 761 Managerial, Professional and Technical employees, and 466 Rank and File employees or a total of 1,234.

(B) Properties

Petron owns the largest petroleum refinery complex in the Philippines located in Limay, Bataan. This refinery has a crude distillation capacity of 180,000 barrels per day (BPD). It has three Crude Distillation Units, a Vacuum Pipestill, a Thermofor Catalytic Cracking Unit, a Continuous Catalyst Regeneration Unit, a Powerformer Unit, a Gasoil Hydrotreater Unit, an Isomerization unit, a Gas Oil Desulphurizer Unit, a Sulfur Recovery Unit, a Kerosene Merox Treater, two Naphtha Hydrotreaters, two LPG Treaters, a Kero Hydrosweetener, a Caustic Regeneration Unit, a Solvents Plant, Waste Water Treatment Facilities, seven Steam Generators, five Turbo Generators, Flare and Safety Relieving Facilities, Bulk Asphalt Loading Facilities, several crude storage tanks, as well as several refined petroleum products storage tanks. It has its own piers and other berthing facilities one of which can accommodate even very large crude carriers. Petron also has a 7,200 BPD Mixed Xylene Plant.

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

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

(C) Legal Proceedings

In 2004, Petron was involved in certain litigation some of which are material as this term is understood under the law. These are:

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

   Commissioner of Internal Revenue v. Petron Corporation
   Court of Appeals
   CA-G.R. SP No. 55330
   Date Filed: October 1999

   Background: In April 1998, the BIR demanded from Petron payment of alleged delinquent specific taxes, inclusive of surcharges and interest for the years 1993 to 1997. Protesting the collection inasmuch as its excise tax liabilities had been fully paid through the use of validly issued Tax Credit Certificates (TCCs), Petron elevated its protest to the Court of Tax Appeals (CTA) in July 1998. The CTA ruled in favor of Petron. In 1999, the BIR Commissioner elevated this ruling to the Court of Appeals where it is still pending.

   Relief sought on Appeal: The BIR seeks a reversal of the CTA decision and prays for judgment *ordering Petron to pay P1,107,542,547.08 in excise tax liabilities for 1993-1997* inclusive of surcharges and interest, plus 25% surcharge and 20% annual interest from April 22, 1998.

   Status: The Court of Appeals issued a resolution suspending resolution of the case until the termination of the DOF investigation on the TCCs assigned to Petron.

2. **Petron Corporation v. Commissioner of Internal Revenue (CIR)**
   Court of Tax Appeals
   CTA Case No. 6136
   Date Filed: July 10, 2000

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

   Protesting this assessment, Petron filed the Petition for Review (with Motion to Stop Collection of Deficiency Excise Taxes, Surcharges and Interest) before the CTA.

   Status: The case was submitted for resolution on October 29, 2003. However, on September 24, 2004, the CTA, upon motion of the CIR, and over the objection of Petron, reopened the case and set it for hearing for presentation of further evidence by the CIR. Petron has filed a Motion for Reconsideration of the reopening of the case.

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

   Background: In January 2002, the BIR issued a tax deficiency assessment against Petron for the total amount of P739,003,036,32 (inclusive of interest and charges) since the TCCs and TDMs used to pay the excise tax liabilities had been identified as cancelled by the DOF One-Stop-Shop and Duty Drawback Center.

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

   Status: The CIR rested its case in May 2004. However, on October 4, 2004, the CTA, upon motion of the CIR, and over the objection of Petron, reopened the case and set it for hearing for presentation of further evidence by the CIR. Petron has filed a motion for reconsideration of the reopening of the case.

4. **People of the Philippines v. Antonio P. Belicena et al.**
   Criminal Cases Nos. 25922 to 25939
   Sandiganbayan (4th Division)
   Date Filed: April 6, 2000

   Background: In eighteen (18) cases, former Petron officials are charged with violations of the Anti-Graft and Corrupt Practices Act for having allegedly conspired with former officials of the DOF One-Stop-Shop and Duty Drawback Center, BIR and the Bureau of Customs (BOC) and with private individuals to defraud the government by accepting fraudulently issued TCCs amounting to about P614.7 million and thereafter, by using these TCCs in payment of taxes. Due to the prolonged delay in submitting the results of the reinvestigation by the Office of the Special Prosecutor, the Sandiganbayan on August 20, 2001, dismissed these cases. However, on February 2, 2002, the Sandiganbayan set aside the dismissal. On December 12, 2003, the Sandiganbayan denied the accused's motion for reconsideration.

   Status: On March 22, 2004, invoking their right against double jeopardy, 2 former Petron officials already arraigned, filed their Petition for Certiorari with the Supreme Court to nullify the setting aside of the dismissal. In the meantime, reinvestigation of the cases has been terminated and the Ombudsman has resolved to pursue prosecution.

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

   Background: A former Petron officer is charged with violations of the Anti-Graft and Corrupt Practices Act for having allegedly conspired with former officials of the DOF One-Stop-Shop and

Duty Drawback Center, BIR and BOC and with private individuals to defraud the government by accepting TCCs fraudulently issued to Diamond Knitting Corporation.

Status: The arraignment scheduled on March 6, 2003 was deferred until further notice. In the meantime, reinvestigation of the cases has been terminated and the Ombudsman has resolved to pursue prosecution. In May 2004, the Petron official was arraigned.

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

   Background: A former Petron officer is charged for having allegedly conspired with former officials of the DOF One-Stop-Shop and Duty Drawback Center and with private individuals in committing plunder, violation of the Anti-Graft and Corrupt Practices Act and Estafa for the fraudulent issuance of TCCs to Filstar Textile Industrial Corporation and their subsequent fraudulent transfer to Petron.

   Status: The counter-affidavit of the Petron officer was filed on June 16, 2003. The case is deemed submitted for resolution after SPTF 156 filed its Reply Affidavit.

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

   Background: A number of Petron officers and employees are charged for having allegedly conspired with former officials of the DOF One-Stop-Shop and Duty Drawback Center and the owners and officers of Allstar Spinning, Inc. in committing plunder, violation of the Anti-Graft and Corrupt Practices Act and Estafa for the fraudulent issuance of TCCs to said corporation and their subsequent fraudulent transfer to Petron.

   Status: The counter-affidavits of the Petron officers and employees were filed in December 2003. The case is deemed submitted for resolution after the SPTF 156 filed its Reply Affidavit in January 2004.

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

   Background: A number of Petron officers and employees are charged for having allegedly conspired with former officials of the DOF One-Stop-Shop and Duty Drawback Center and the owners and officers of New Alliance Thread Co., Inc. in committing plunder, violation of the Anti-Graft and Corrupt Practices Act and Estafa for the fraudulent issuance of TCCs to said corporation and their subsequent fraudulent transfer to Petron.

   Status: The counter-affidavits of the Petron officers and employees were filed in February 2004.

9. **Special Presidential Task Force 156 v. Antonio P. Belicena, et al.**
   Ombudsman
   OMB-C-C-04-0064-B
   Date Filed: January 30, 2004

   Background: A former Petron officer is charged for having allegedly conspired with former officials of the DOF One-Stop-Shop and Duty Drawback Center and with officers of Express Colour Industries, Inc. in committing plunder, violation of the Anti-Graft and Corrupt Practices Act and Estafa for the fraudulent issuance of TCCs to said corporation and their subsequent fraudulent transfer to Petron. It should be noted that in this case, notwithstanding the fact that the alleged fraudulent TCCs of Express Colour were not used by Petron to pay for its own tax obligations, nonetheless conspiracy charges for fraudulent acts were filed against the Petron Officer.

   Status: The counter-affidavit of the Petron officer was filed on August 13, 2004.

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

    Petron Corporation v. Mayor Tobias M. Tiangco and Municipal Treasurer Manuel T. Enriquez
    Regional Trial Court of Malabon
    Civil Case No. 3380-MN
    Date Filed: May 20, 2002

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

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

    Relief sought: Reversal of the RTC Decision and the cancellation of the questioned assessment of the Municipality of Navotas.

    Status: The Supreme Court issued a TRO against the Mayor and Municipal Treasurer of Navotas on August 6, 2003 which enjoined the latter from closing Petron's Navotas oil depot. The petition is now deemed submitted for decision with the parties' submission of their respective memoranda.

11. **Petron Corporation v. City Council of Manila, et al.**
    Regional Trial Court of Manila
    Case No. 03-106379

Date Filed: April 25, 2003

Background: The City Council of Manila, citing concerns of safety, security and health, passed City Ordinance No. 8027 reclassifying the areas occupied by the Oil Terminals of Petron, Shell and Caltex from Industrial to Commercial, making the operation of the Terminals therein unlawful. Simultaneous with efforts to address the concerns of the City Council with the implementation of a Scale Down Program to reduce tankage capacities and joint operation of facilities with Shell and Caltex, Petron filed this petition to annul city Ordinance No. 8027 and enjoin the City Council of Manila, as well as Mayor Joselito Atienza from implementing the same.

Relief sought: Nullification of Ordinance No. 8027

Status: On May 15, 2003, the RTC, upon agreement of the parties, issued a status quo order which prevents the respondents from enforcing the Ordinance until further orders of the Court or termination of the case. The case was referred to and is undergoing mediation before the Philippine Mediation Center.

12. **Liquefied Petroleum Gas Marketers Association v. Pilipinas Shell, Petron, and Total (Philippines)**
Regional Trial Court of Pasig City
Spl Civil Action No. 2741
Date Filed: November 10, 2004

Background: The plaintiff, a group of independent refillers engaged in the business of buying, selling, distributing, and marketing of liquefied petroleum gas (LPG), claims to have acquired ownership of defendants' LPG cylinders in good faith. LPGMA claims that it can exercise all rights of ownership over the cylinders, subject to the intellectual property rights of the defendants.

Relief sought: LPGMA prays for judgment authorizing its members to repaint/obliterate the marks on the defendants' LPG cylinders and all LPG cylinders which now or in the future may come into their possession; or to compel the parties to enter into a swapping arrangement and/or compelling the defendants to buy back the subject LPG cylinders.

Status: Summons was served on Petron on November 23, 2004.

TCC-Related Cases

In the TCC-related criminal cases, Petron officials are uniformly charged or accused of having conspired with former officials of the DOF One-Stop-Shop and Duty Drawback Center, BIR and the BOC and with private individuals to defraud the government by accepting fraudulently issued TCCs and thereafter, by using these TCCs in payment of taxes. The Petron officers had acted on or signed the Deeds of Assignment in official capacities. The Company continues to express its full confidence in the integrity of its officers and employees, former and current. The Company therefore expects that the charges against these Petron officers and employees will be dismissed.

The Company maintains that it has not been involved in the issuance of these 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. The Company and its officers maintain that they have not gained any undue advantage in any of the TCC transactions and for each TCC that was duly assigned and accepted, the Company issued an equivalent Company Credit Note that was used to pay for the products of the Company.

The other litigated matters are the usual collection cases, dealership cases, labor cases, and cases for damages in which the amounts involved are not material as this term is defined in SRC Rule 12.

PART II - SECURITIES OF THE REGISTRANT

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

(1) Market Information

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

	Highest Close		Lowest Close	
Period	Price	Date	Price	Date
2004				
1st Quarter	3.55	13-Feb-04	2.34	05,08-Jan-04
2nd Quarter	3.40	27,28-Apr-04	2.75	01-Apr-04
3rd Quarter	3.05	01,02,06-Jul-04	2.42	24-Aug-04
4th Quarter	3.35	08-Nov-04	2.80	13,15,18-Oct-04
2003				
1st Quarter	1.78	27-Mar-03	1.54	02,06,07-09-Jan-03
2nd Quarter	2.18	16-Apr-03	1.78	02-June-03
3rd Quarter	2.32	17-Jul-03	1.88	29-Aug-03
4th Quarter	2.32	23-Dec-03	1.98	01-Oct-03

Price as of last trading day of the year, December 29, 2004, was P3.25 per share.

The total number of stockholders as of December 31, 2004 is 196,828.

(2) Holders

List of Top 20 Stockholders
As of December 31, 2004

Rank	Name	Nationality	No. of shares	%
1	Philippine National Oil Company	Filipino	3,750,000,006	40.00
2	Aramco Overseas Company B.V.	Netherlands	3,750,000,005	40.00
3	PCD Nominee Corp.	Filipino	531,089,091	5.66
4	PCD Nominee Corp.	Foreign	503,976,134	5.38
5	Home Development Mutual Fund	Filipino	18,830,091	0.20
6	Ansaldo, Godinez & Co. Inc. FAO Mark V. Pangilinan	Filipino	8,000,000	0.09
7	Siao Tick Chong	Filipino	7,500,000	0.08
8	Dr. Shahrad Rahmanifard	Iraninian	6,000,000	0.06

9	Antonio S. Araneta, Jr.	Filipino	5,000,000	0.05
10	Marciano V. Pangilinan	American	5,000,000	0.05
11	Aristeo Lascano Castillo	Filipino	4,145,000	0.04
12	Sim Chi Tat &/or Conching Tan Sim	Filipino	2,900,000	0.03
13	Sonny Ico Parayno	American	2,613,000	0.03
14	Agaton Lim Tiu	Filipino	2,500,000	0.03
15	Remington Tiu &/or Agaton Tiu	Filipino	2,500,000	0.03
16	Ching Hai Go &/or Martina Go	Filipino	2,500,000	0.03
17	Aristeo L. Castillo	Filipino	2,326,500	0.02
18	China Banking Corporation	Filipino	2,287,500	0.02
19	Allied Banking Corporation	Filipino	2,145,000	0.02
20	Conrado S. Chua, Sr.	Filipino	2,130,000	0.02

(3) Dividends

On May 18, 2004, the company's Board of Directors declared a cash dividend in the amount of P0.20/share. Stockholders on record as of June 2, 2004 were paid their dividend on June 28, 2004.

The previous year, on May 6, the Board had also declared a cash dividend of P0.20 per share. All stockholders on record as of May 29, 2003 were entitled to the dividend. The payment date for shareholders whose shares were lodged with PCD was June 25, 2003 and July 11, 2003 for other shareholders.

(B) Description of Petron's Shares

The registrant's securities consist entirely of common stock with par value of P1.00 per share. Total common shares are 9.375 billion, which are also voting shares.

(C) Stock Ownership Plan

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

PART III - FINANCIAL INFORMATION

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

Financial Condition and Results of Operations

(For convenience, U.S. dollar information in the following discussion has been translated into Philippine pesos at the exchange rate of ₱ 56.341 to US$1.00, the Philippine peso - U.S. dollar rate as quoted by the Philippine Dealing System as of December 31, 2004.)

Results of Operations

2004 vs. 2003

Petron's ***net income*** of ₱ 3.43 billion for the year was 10% or ₱ 311 million higher than the ₱ 3.11 billion earnings recorded during the same period last year. The increase was mainly due to higher gross margin, specifically from exports and better management of financing costs, substantially reduced by the escalation in operating charges.

Overall sales volume of 52,756 MB was up by 5.96% or 2,967 MB from the year-ago level of 49,789 MB. The incremental volume was contributed by domestic (by 5,577 MB) and supply sales (by 378 MB), partly reduced by the decline in export sales (by 2,988 MB). The improvement in domestic market sales came from growth in Industrial Civil Trade (by 3,452 MB), Retail (by 1,078 MB) and NPC sales (by 1,055 MB).

Net revenues reached ₱ 147.43 billion, surpassing the previous year's level by 33.13%. The increase was due to higher costs of crude and product imports, which were reflected in higher selling prices for petroleum products. On the average, prices were up 26.5%. A 5.96% growth in sales volume also boosted revenues.

Cost of goods sold surged to ₱ 136.68 billion from the previous year's ₱ 101.35 billion traceable primarily to the combined effects of the $7.88/bbl escalation in FOB of crude that went into production, the $0.74/BBL hike in freight cost and the ₱ 1.83 average deterioration of the peso against the US dollar.

Gross margin of ₱ 10.75 billion showed an improvement of 14.54% (₱ 1.36 billion) from the ₱ 9.38 billion level last year. However, gross margin rate dropped to 7.29% from the previous year's 8.47% even with the ₱ 3.58 per liter average hike in selling price as the average duty-paid landed cost of crude processed during the period escalated by ₱ 3.46 per liter.

Operating expenses stood at ₱ 4.88 billion, 27.26% (₱ 1.05 billion) higher than the recorded operating expenses in 2003 of ₱ 3.84 billion. The increase was attributable to incremental costs for materials and supplies, particularly LPG cylinders; higher expenses as a result of the adoption of International Accounting Standards (IAS) No. 19; business expenses and provision for uncollectible accounts.

Financing and other charges were maintained at last year's level of ₱ 1.43 billion despite the escalation in crude and imported fuel prices owing to the rigid monitoring and application of the economics between a peso and dollar loan.

2003 vs. 2002

Petron posted a net income of ₱ 3.11 billion in 2003, 6.61% or ₱ 193 million higher than the ₱ 2.92 billion income recorded in 2002. This was brought about by an increase in gross margin of ₱ 522 million, decrease in selling and administrative expenses of ₱ 346 million, and a decrease in provision for income tax of ₱ 229 million. However, other operating expenses and other charges increased by ₱ 671 million and ₱ 233 million, respectively.

Sales volume for the year reached 49,791 MB, slightly surpassing 2002's 49,440 MB by 0.07% or 351 MB. Increases in domestic sales(by 721 MB) and exports (by 231 MB) were partly offset by a drop in supply sales (by 601 MB). The growth in domestic sales was attributable to Retail trade's opening of 30 new outlets and re-imaging/rehabilitation of some service stations, increased sales thru retail distributors, and participation in the DOE's discounted diesel fuel program. These made up for the reduction in sales to NAPOCOR, Philippine Government and US military accounts.

2003 net sales of ₱ 110.74 billion exceeded 2002's level by 19.94% or ₱ 18.41 billion as a result of an 18% or ₱ 2.24 increase in average selling price per liter from last year's ₱ 11.75 plus the 0.07% improvement in volume.

Cost of goods sold likewise increased by 21.43% or an average of ₱ 2.18/liter due to higher duty-paid landed cost of crude processed in 2003 versus 2002 aggravated by the higher importation cost of finished products.

Improvement in gross margin was further complemented by lower selling and administrative expenses (from ₱ 3.94 billion to ₱ 3.59 billion) as the company continued to practice cost discipline in all aspects of its operations.

Better operating income was overshadowed by an increase in other charges, including the rise in interest expense on account of higher interest rates and borrowing levels, plus the imposition of VAT.

2002 vs. 2001

Petron sustained the recovery it registered in 2001 (coming from a net loss in 2000) by posting a 138.64% growth in its 2002 profits. As a result of better sales volume and more effective financing for the year 2002, the company posted its highest net income in four years at ₱ 2.92 billion.

Sales volume in 2002 totaled 49.44 million barrels, 4.42% or 2.09 million barrels better than 2001's 47.35 million barrels. Domestic sales contracted by 5.77% or 2.38 million barrels but this was more than offset by the hike in both exports and supply sales by 72.69% or 4.47 million barrels. The significant drop in domestic sales was mainly attributable to reduced oil demand by the National Power

Corporation. Despite the reduction in NPC sales, Petron managed to retain its market leadership in 2002.

Sales revenue also grew by 4.41% or ₱ 3.90 billion from ₱ 88.43 billion to ₱ 92.33 billion while cost of goods sold increased at a lower rate of 2.76% or ₱ 2.24 billion. As a result of higher selling price and lower cost of sales per liter as well as better sales mix, gross profit rate improved from 8.15% in 2001 to 9.60% in 2002.

Cost discipline was very evident in all areas of operations. Consequently, operating expenses were lower at ₱ 3.51 billion than 2001 of ₱ 3.70 billion.

Another factor for the improved financial performance was lower net non-operating charges. Full year financing and other charges went down by ₱ 420 million essentially due to lesser interest expense on account of lower interest rates and borrowing levels.

Financial Condition

2004

Total resources as of December 31, 2004, aggregated ₱ 61.42 billion, 19.95% or ₱ 10.22 billion higher than the ₱ 51.20 billion posted in 2003. While Petron's debt ratio rose from 0.55 as of December 31, 2003 to 0.82 as a result of the increases in both short and long-term loans used to finance importations and capital projects, current ratio improved to 1.13 from 1.09 in 2003.

Cash and cash equivalents increased by ₱ 906 million or 28.33% emanating primarily from month-end collections from customers.

The upward oil price adjustments coupled with higher sales volume accounted primarily for the ₱ 2.34 billion or 24.62% upturn in ***receivables-net.***
The build-up in ***inventories*** by ₱ 3.56 billion or 22.72% was attributable essentially to higher crude and finished products prices.

The additional allowance provided by the company for the decline in value of investment for All Asia accounted mainly for the ₱ 45 million decrease in ***Investments-net.***

Property, plant and equipment grew by ₱ 3.37 billion or 15.65% largely on account of the capital expenditures for refinery projects.

Other non current assets climbed to ₱ 188 million from ₱ 80 million in December 2003 brought about principally by the unamortized portion of the newly acquired R234 catalyst and the SAP standard software license fee.

Short-term loans increased by ₱ 3.09 billion or 20.10% due mainly to peso and dollar loans obtained from banks to finance importation of crude and petroleum products.

Liabilities for crude oil and petroleum product importation decreased by ₱ 432 million due to lower crude purchases in December 2004 (by 261 MB).

Accounts payable and accrued expenses increased by ₱ 1.23 billion or 30.92% on account largely of retention payable related to the on-going construction of major capital projects in the refinery as well as liabilities to local suppliers and contractors.

Income tax payable rose to ₱ 278 million since prior years' NOLCO and MCIT were already fully applied in 2003.
The *current portion of long-term debt* totaling ₱ 1.62 billion was more than twice the end-December 2003 level of ₱ 712 million on account of long-term loans obtained from Landbank and Citibank which will be due for payment in a year's time.

Non-current liabilities and deferred credits rose by ₱ 3.61 billion or 73.73% on account principally of the outstanding dollar denominated loan ($100 million) obtained from NORD for major capital projects.

Increase in *retained earnings-unappropriated* by ₱ 195 million pertained to the ₱ 3.43 billion earnings for the period ended December 2004 less dividends declared of ₱ 1.88 billion and appropriation for future capital projects of P1.36 billion.

2003

As of December 31, 2003, Petron's consolidated assets stood at ₱ 51.20 billion, 3.52% or ₱ 1.74 billion higher than the ₱ 49.46 billion of 2002. Petron's debt ratio was reduced from 0.63 as of December 31, 2002 to only 0.55 which was attributable to the early settlement of the NORD loan in March 2003.

Cash and cash equivalents dropped to ₱ 3.20 billion from ₱ 5.42 billion registered in 2002. The 41.00% decrease in the level of cash was largely attributable to the growth in inventories by ₱ 4.20 billion which consumed the cash inflows from operating activities.
Reduction in allowance for market decline due to market recovery accounted for the ₱ 12 million or 21.05% increase in short-term investments.

Inventories increased to ₱ 15.67 billion from ₱ 11.48 billion as a result of higher volume for both finished products and crude oil accompanied by increase in cost per barrel. Finished products stood at 4.10 million barrels, 100 thousand barrels above previous year's level of 4.00 million barrels while crude oil increased by 479 thousand barrels.

Other non-current assets were reduced by ₱ 15 million or 15.79% primarily on account of the write-off of certain pre-operating expenses.

Escalation in short-term loans by ₱ 3.28 billion or 27.10% pertains to unsecured peso loans obtained from banks to finance importation of crude and petroleum products. All outstanding short-term loans are denominated in pesos, thus reducing forex risks.

Liabilities for crude oil and petroleum product importations rose by ₱ 1.83 billion or 38.66% due mainly to higher volume as well as crude cost in 2003.

Decline in current portion of long-term debt by ₱ 4.61 billion or 86.63% was solely attributable to the prepayment of the NORD loan in March 2003.

Decrease in non-current liabilities by ₱ 44 million was largely attributable to the current portion of long-term loans obtained from Citibank and Landbank that will mature in 2004.

Increase in retained earnings-unappropriated by ₱ 1.25 billion pertained to the ₱ 3.11 billion earnings for the period ended December 2003 less dividends declared of ₱ 1.88 billion.

2002

As of December 31, 2002, Petron's consolidated assets stood at ₱ 49.46 billion with a debt ratio of 0.63, an improvement from the previous year's 0.66 debt ratio.

Cash and cash equivalents increased by ₱ 980 million as the cash inflows from operating activities of ₱ 6.2 billion exceeded the combined cash outflows of ₱ 5.21 billion under investing and financing activities.

Receivables increased by ₱ 1.35 billion as a result of higher average selling price per liter in December 2002 compared to the average in December 2001.

Other current assets decreased by ₱ 1.92 billion as a result mainly of the full utilization of net operating loss carryover.

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

Short-term loans dropped by ₱ 6.12 billion as an offshoot of planned actions aimed at reducing financing costs.

Liabilities for crude oil and petroleum product importations rose by ₱ 1.69 billion due to the38% hike in average crude costs in December 2002 as compared to the December 2001 average.

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

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

Cash Flows

2004

Petron registered a lower operating cash inflow of ₱ 242 million this year compared with the ₱ 2.91 billion last year driven principally by the build-up in operating assets.

2003

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

2002

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

The company also managed to reduce its short-term loans amounting to ₱ 6.12 billion and pay dividends amounting to ₱ 1.4 billion.

Financial Condition

Financial Statements (in million)	2004	(As Restated) 2003	(As Restated) 2002
b) Cash and Cash Equivalents			
Cash in Bank (Peso)	2,917	2,467	2,788
Citibank/PNB ($)	581	55	3
Marketable Sec. ($)	606	676	2,628
Total	4,104	3,198	5,419
c) Acccounts Receivables-Others			
Duty Drawback, Tax Credits & other claims	1,456	1,068	1,332
Borrow and Loan	93	177	301
Unapplied Withholding Taxes/Tax Certificates	30	165	171
Others	818	560	514
Total	2,397	1,970	2,318
d) Operating Expenses			
Depreciation and amorization	843	924	1,104
Employee costs	1,218	979	920
Purchased services and utilities	646	430	494
Maintenance and repairs	545	467	378
Advertising	403	227	277
Rental expense	271	260	265
Materials and office supplies	260	46	245
Taxes and licenses	177	197	111
Insurance	71	47	65
Provision for doubtful accounts	162	-	65
Entertainment, amusement and representation	16	14	13
Other operating charges (income)	271	246	(425)
Total	4,883	3,837	3,512

e) Other Income/(Charges)			
Interest Income	344	235	257
Interest Expense	(1,439)	(1,493)	(1,068)
Foreign Exchange Gain (Loss)	(22)	(16)	(200)
Reversal of allowance (provision) for decline in value of investments	(91)	12	5
Others	(218)	(166)	(189)
Total	(1,426)	(1,428)	(1,195)

Top Five (5) Key Performance Indicators

Ratio	Dec-04	Dec-03	Dec-02
Current Ratio	1.13	1.09	1.04
Debt Equity Ratio	1.82	1.55	1.63
Return on Equity (%)	16.80	16.40	16.40
Debt Service Coverage			
Citibank	1.76	3.34	2.34
NORD	1.61	-	-
Tangible Net worth (MMP)	₱ 21,224	₱ 19,670	₱ 18,419

Current Ratio - Total current assets divided by total current liabilities.
This ratio is a rough indication of a company's ability to service its current obligations. Generally, the higher the current ratio, the greater the "cushion" between current obligations and a company's ability to pay them.

Debt Equity Ratio - Total liabilities divided by tangible net worth.
This ratio expresses the relationship between capital contributed by creditors and that contributed by owners. It expresses the degree of protection provided by the owners for the creditors. The higher the ratio, the greater the risk being assumed by creditors. A lower ratio generally indicates greater long-term financial safety.

Return on Equity - Net income divided by average total stockholders' equity.
This ratio reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better.

Debt Service Coverage - Free cash flows add available closing cash balance divided by projected debt service.
This ratio shows the cash flow available to pay for debt to the total amount of debt payments to be made. It also measures the company's ability to settle dividends, interests and other financing charges.

Tangible Net Worth - Net worth minus intangible assets.
This figure gives a more immediately realizable value of the company.

Exchange Rate Volatility

Any volatility in the exchange rate implies cost uncertainties for Petron, both in terms of operating and capital expenses. As the peso depreciates, the landed cost of imported crude oil and products, and of capital equipment increases.

In 2004, the Peso-Dollar rate averaged P56.04 in 2004 compared to P54.21 in 2003. The depreciation of the peso was affected by market apprehensions over risks of a sovereign credit rating downgrade and persistent concerns over the fiscal situation. The peso's decline, however, was tempered by inflows of OFW remittances and favorable export performance

Known Trends

<u>Higher crude prices</u>

The price of Dubai crude averaged $33.63 per barrel, 26% higher than the $26.79 level in 2003. The uptrend was driven by a combination of demand and supply concerns, namely market uncertainty due to geopolitical events in major oil-producing countries such as Iraq, Nigeria, Venezuela, thin spare capacity, along with sustained growth in oil demand particularly for China.

<u>Inflation and Interest Rates</u>

Inflation averaged 5.5% in 2004 versus 3.0% in 2003. Supply-side factors mainly pushed up inflation, i.e., increase in global oil prices which translated into higher cost of transport services and other goods, as well as the occurrence of typhoons and domestic supply constraints that affected the availability of certain food products.

Domestic interest rates also rose particularly in the fourth quarter with the 91-day t-bill rate averaging 7.8% compared to 7.5% in the previous quarter. For the whole year, the 91-day Tbill rate averaged 7.3% versus 6.0% in 2003. The rise in interest rates reflected concerns over the higher inflation, fiscal deficit, and the risks of downgrade in the country's credit rating.

Material Commitments for Capital Expenditures

The company's proposed capital program for 2005 amounts to about P6 billion. Major capital projects involve upgrading of refinery facilities, namely:

1. Thermofor Catalytic Cracking Unit (TCCU) Conversion. The project will improve the conversion rate of fuel oil into LPG, gasoline and diesel. Total investment for the project is estimated at P5.8 billion.

2. Turbo Generators (TG)001/1002 Controls Upgrade. The P45 million project which mainly includes retrofitting of generators will ensure reliability of the power system at the refinery.

Other capital projects include enhancements in service station and supply/distribution facilities.

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

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

PART IV - MANAGEMENT AND CERTAIN SECURITY HOLDERS

(A) Directors and Executive Officers of the Registrant

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

(1) Directors

Nicasio I. Alcantara, Filipino, 62 years old, has been a Director and the Chairman of Petron Corporation since July 2001. Last July 26, 2004, he was again elected as Chairman of Petron Corporation. Before his election to the Board of Petron Corporation, he was Chairman and/or President of various corporations of the Alcantara Group of Companies, such as Alsons Power Holdings, Inc., Alson Power Holdings Corp., Southern Philippines Power Corp., Western Mindanao Power Corp., Northern Mindanao Power Corp., Alto Power Corporation, MADE (Market Developers), Inc. and Conal Holdings Corporation. He was a Director of United Pulp and Paper Co. from May 1986 to 2003. Mr. Alcantara is currently a Director of Alsons Corporation, Conal Corporation, Alsons Insurance Brokers Corp., Sarangani Agricultural Co., Inc., Alsons Aquaculture Co., Inc., Aquasur Resources Corporation, Finfish Hatcheries, Inc., Buayan Cattle Co. Inc., Alsons Development & Investment Corp., Alsons Land Corporation, Lima Land, Inc., C. Alcantara & Sons, Inc., Refractories Corp. of the Philippines, Bancasia Capital Corporation, Bank One Savings & Trust Corporation, The Philodril Corporation and T'boli Agro Industrial Corporation. He also serves as a member of the Boards of Trustees of the Philippine Institute of Petroleum (PIP), the Philippine Business for Social Progress (PBSP) and the Junior Achievers of the Philippines (JAPI). He earned his Business Administration degree from the Ateneo de Manila University and his Masters degree in Business Administration from Sta. Clara University, California.

Khalid D. Al-Faddagh, Saudi Arabian, 49 years old, has been a Director since July 2001 and President of the Company since July 29, 2003. He was elected President and Chief Executive Officer last July 26, 2004. Mr. Al-Faddagh has more than 20 years experience in the oil industry and held various professional and management positions in Saudi Aramco. He was the Manager for Facilities Planning Department in Saudi Aramco from January 2001 to July 2003. Mr. Al-Faddagh was also the Manager for the Abqaiq Plants Maintenance Department of Saudi Aramco from July 1983 to January 2001. He has a Doctorate Degree in Mechanical Engineering from the Imperial College, London University and attended several executive programs including a recent one at Harvard Business School.

Bernardino R. Abes, Filipino, 74 years old, has been a non-executive Director of the Company since July 2001 and member of the Board Audit Committee. Last November 24, 2004, he was elected member of the Compensation Committee. He is also the Chairman of the Government Service Insurance System and Director of Belle Corporation. Mr. Abes is currently the Director of Union Bank of the Philippines since 2001. He held the position of Presidential Adviser on Legislative Affairs and Head, Presidential Legislative Liaison Office in 2001. He was also the Chairman of Social Security Commission and Director of Philex Mining Corporation and First Philippine Holdings from 2001 to 2004. He graduated from the University of Santo Tomas with a Bachelor of Laws degree.

Basil A. Abul-Hamayel, Saudi Arabian, 39 years old, has been a Director of the Company since July 2004 and is currently the Vice-President for Corporate Planning Division of the Company since April 2004. He has been a Director of Petron Foundation, Inc., Petron Marketing Corporation and Petron Freeport Corporation since 2004. Mr. Abul-Hamayel has 21 years of service with Saudi Aramco and has occupied several professional and supervisory positions, the most recent, being the leader of the finance team involved in negotiating, on behalf of the Government of Saudi Arabia, the upstream gas exploration concessions with the International Oil Companies (IOCs) which function he held from September 2001 to October 2003. Prior to this assignment, he was seconded to the World Bank Group in Washington D.C., from 1999 to 2001, where he was a Senior Financial Specialist in the Oil, Gas and Chemicals division. He holds an undergraduate degree in economics from the University of Texas at Austin (1987) and an MBA in Finance from the Massachusetts Institute of Technology (MIT) Sloan School of Management (1996).

Khalid G. Al-Buainain, Saudi Arabian, 46 years old, has been a non-executive Director of the Company since July 29, 2003. He is currently the Vice-President for Refining of Saudi Aramco since June 2003. Prior to his appointment, from June 2001 to May 2003, he served as Vice President of Medical Services. From May 1999 to May 2001, he was in charge of Saudi Aramco Affairs, first as Executive Director and later as Vice President. He is presently the Chairman of Luberef and a member of the Saudi Aramco Executive Advisory Committee. He has a Bachelor of Science degree in Mechanical Engineering from the University of Petroleum and Minerals and attended the Executive Program at the Harvard Business School in 1999.

Motassim A. Al-Ma'ashouq, Saudi Arabian, 44 years old, has been Director since September 2000. He is currently the Assistant Treasurer of Saudi Aramco. Mr. Al-Ma'ashouq was the Company's President from 2000 to 2003 and the Chief Executive Officer from September 2000 until July 2002. Prior to his first assignment to Petron, Mr. Al-Ma'ashouq was a Planning Coordinator in charge of domestic energy planning activities in the Corporate Planning Department of Saudi Aramco. He was also Acting Manager of Saudi Aramco's Business Analysis Department. He received his M.A. in Economics from the University of London, U.K. in 1984.

Herminio S. Aquino, 55 years old, Director of the company since November 2004. He is currently the Chairman and President of Buenavista Management Corporation and Chairman of Trackworks, Inc. and 7-Series, Inc. He was the Vice Governor of the Province of Tarlac from 1998-2001 and was Congressman for the 3rd District of Tarlac for three terms from 1987-1998. While in Congress, he was Chairman of the Committee on Energy from 1987-1992 and Vice-Chairman from 1992-1998 and was a member of various other Committees. He also worked under the Executive Branch as Deputy Executive Secretary for Human Settlements and Chairman of various government agencies such as Ministry of Human Settlements, Housing and Urban Development Coordinating Council, Bagong Kilusang Kabuhayan at Kaunlaran and Human Settlements Development Corporation. Mr. Aquino holds a Bachelor of Science in Commerce degree, major in Economics from the Ateneo de Manila University and holds a Masters in Business Management Degree from the Asian Institute of Management.

Alberto A. Pedrosa, 72 years old, was elected Director of the company last March 2005. He is currently the Chairman and Publisher of Republika, a newsmagazine focused on the 42,000 barangays in the country. He is also the Chairman of People's Initiative for Reform, Modernization and Action (PIRMA). He was a Member of the Board of Directors of Philippine Deposit Insurance Corporation and former Ambassador Extraordinary and Plenipotentiary to Belgium, Luxembourg and the European Union from 1992-1995. He also worked as Chairman of the ASEAN Brussels Committee from September 1993-March 1994, Adviser of Philippine Delegation on the 12th ASEAN-EC JCC, Brussels in October 1995, Member of delegation, ASEAN-EU Ministerial Meeting in Karlaruhe, Germany in September 1994 and was Secretary of the Confederation of Philippine Embassies in Europe. He was former Chairman of the Confederation of Filipino Overseas Organizations, London. Mr. Pedrosa was also a trainee in the Foreign

Department, Bankers Trust Company; in ocean traffic management and operations, and in sugar trading and brokering under different New York firms. Mr. Pedrosa holds a Bachelor of Arts degree, major in Economics from the University of the Philippines. He also took post-graduate studies at Sciences-Po in Public Economics at the University of Paris and summer seminar in Luxembourg on the European Economic Community, Faculte' d'Economie Comparee, Luxembourg.

Douhan H. Al-Douhan, Saudi Arabian, 69 years old, has been an independent Director since July 2001. He is a member of the Audit Committee and of the Nomination Committee. He is currently the Managing Director of Randa Trading & Construction in Saudi Arabia since 2004. He is also a Partner and Board of Director of Gabas Alkhaleej, also in Saudi Arabia since 2004. He was a retired Executive Director of Management Services Organization and former assistant secretary to the board of directors of Saudi Aramco until December 31, 1995. In Saudi Aramco, he held several management positions in the Loss Prevention Department, Oil Producing Operations and Maintenance Department & Government Affairs Organization. He was actively involved in several committees like the Corporate Executive Compensation Committee, Management Development & Organization Committee, Services Review Committee, Ethics & Conflict of Interest Committee, Donation Committee, Saudi Manpower Committee & Corporate Task Force for Manpower Review. Mr. Al-Douhan has a Bachelor of Science degree in Engineering Technology with emphasis in Manufacturing from the Memphis State University, Tennessee, U.S.A.

Jose Luis U. Yulo, Jr., Filipino, 57 years old, has been an independent Director since July 2001. He is a member of the Board Compensation Committee and Chairman of both the Audit Committee and the Nomination Committee. He is currently the Chairman of Insurance of the Philippine Islands Co., Inc., President of Centrex Corporation, One Card International Co., Inc. and Majesta Property Holdings. Mr. Yulo was the President and CEO of Philippine Stock Exchange until May 2000. He was a Founding Member of the Asia Pacific Business Advisory Council (ABAC) and served in this organization from 1995 to 2001 as well as in the precursor of ABAC, the Pacific Business Forum. Mr. Yulo has earned a certificate from the Advanced Management College of Stanford University, U.S.A. and holds a Master in Business Management Degree from the Asian Institute of Management.

Other Executive Officers

Jose K. Campos, Jr., 59 years old, has been the Vice President for Marketing since April 15, 2002 and earlier was the Vice President for Supply & Operations, from June 2001 to April 2002. He started working for the company (then known as Esso Philippines, Inc.) on October 20, 1969 as an Analyst in the Marketing Economics & Research Department. He transferred to Industrial Trade in June 1972 as an Account Executive and became Government Sales Supervisor in April 1974. He was named Industrial Sales Manager for Visayas and Mindanao, based in Cebu, in May 1997, and returned to Manila as District Sales Manager for Metro Manila in October 1984. He became Reseller Sales Manager for Luzon in 1986 until he assumed stewardship of Industrial Trade in November 1991. He was Reseller Trade Manager from January 1995 until he was appointed Manager of Strategic Planning in January 1999. He has been with the Company for 35 years, and has attended various management courses both in the Philippines and abroad. He has a Bachelor of Science degree in Economics from the Ateneo de Manila University.

Antonio G. Pelayo, Filipino, 50 years old, has been the Vice President for Finance and Subsidiaries since May 7, 2002. He was the Controller of the company from May 8, 2001 to May 19,

2004. He has a Bachelor of Science in Commerce degree major in Accounting from the University of Santo Tomas and is a Certified Public Accountant. He earned his MBA units from the Ateneo de Manila University and B.S. Economics units from the De La Salle College - Bacolod. He completed executive and leadership programs from Cornell University, University of Virginia and the American Graduate School of International Management (Thunderbird), all in the U.S.A.

Walter A. Tan, Filipino, 58 years old, has been the Vice President for Supply and Operations since April 15, 2002 and was the Vice President for Marketing from September 16, 2000 to April 14, 2002. He was the Vice President for PetroPower Project from January 19, 1999 to September 15, 2000 and the Vice President for Supply and Distribution from 1997 to January 18, 1999. In his 33-year career in the company, he has held various managerial positions in Marketing and Refinery Divisions. He has a Bachelor of Science degree in Chemical Engineering.

Alfred A. Trio, Filipino, 55 years old, has been the Vice President for Refinery Division since December 1, 1999. Prior to his appointment as Vice President, he was the Manager of the Reseller group. He has been with the company for 34 years. He has a Bachelor of Science degree in Chemical Engineering.

Ma. Concepcion F. de Claro, Filipino, 47 years old, has been the Accounting Manager since April 2003 and is currently the Controller of the company as well as its subsidiaries such as Petrogen Insurance Corporation, New Ventures Realty Corporation, Petron Marketing Corporation and Petron Freeport Corporation. She is also the Controller of the Las Lucas Development Corporation, a subsidiary of the New Ventures Realty Corporation. She has been with the company for 24 years. She started as a Financial Analyst and held several supervisory positions at the PNOC Energy Development Corporation (PNOC-EDC), a former affiliate of Petron. After 11 years in PNOC-EDC's Finance Division, Ms. De Claro transferred to PNOC's Budget and Control Department, where she was a Supervisor for three years before she was assigned to Petron's Corporate Planning Department when the company was privatized in 1994. She was the Planning Officer for the Department for seven years, after which she became the Manager for Strategic Planning. She graduated Magna Cum Laude with a degree in Bachelor of Science in Commerce, Major in Accounting from the Colegio de San Juan de Letran.

Rosario R. Eijansantos, Filipino, 56 years old, was appointed Manager of Treasurer's Department in April 2001 and elected Treasurer of the Company last May 8, 2001. She has been with the company for 33 years. She assumed the position of Human Resource Manager in January 1999 until March 2001. She has a Bachelor of Science in Commerce degree major in Accounting from the Far Eastern University and is a Certified Public Accountant.

Luis A. Maglaya, Filipino, 51 years old, is a Legal Counsel of the Company and has been the Corporate Secretary since July 28, 2003. He is also the Corporate Secretary of Petron subsidiaries namely, Petron Foundation, Inc., Petrogen Insurance Corp., New Ventures Realty Corporation, Petron Marketing Corporation and Petron Freeport Corporation as well as Las Lucas Development Corporation which is a subsidiary of NVRC, He has been with the Company for 22 years. He held the position of Legal Counsel and Assistant Corporate Secretary from 1994 to 2003. He earned his Bachelor of Arts degree in Political Science from Ateneo de Manila University in 1975. He obtained his law degree from the University of the Philippines in 1980.

(3) **Involvement in Certain Legal Proceedings** -

The current directors and executive officers are not involved in legal proceedings as defined in Annex C of Rule 12.

(B) Executive Compensation

(1) Executive Compensation

Standard Arrangements. Petron's Executive Officers are also regular employees of the company and are similarly remunerated with a compensation package comprising of twelve (12) months base pay. They also receive whatever gratuity pay the Board extends to the managerial, supervisory and technical employees of the Company.

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

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

(2) Summary Compensation Table

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

Compensation of Executive Officers and Directors		
Name	Principal Position	Amount (In Million Pesos)
Nicasio I. Alcantara	Chairman	
Khalid D. Al-Faddagh	President and CEO	
Jose K. Campos, Jr.	Vice President - Marketing	
Alfred A. Trio	Vice President - Refinery	
Basil A. Abul-Hamayel	Vice President - Corporate Planning	
Antonio G. Pelayo	Vice President - Finance & Subsidiaries	
Walter A. Tan	Vice President - Supply & Operations (resigned March 31, 2005).	
Felimon E. Antiporta	OIC - Supply & Operations (March 16, 2005 - present)	
Luis A. Maglaya	Corporate Secretary	
Rosario R. Eijansantos	Treasurer	
Ma. Concepcion F. de Claro	Controller	
TOTAL (Top 5 Executives)	Aggregate (2003-2004)	98.70
TOTAL (Executives & Directors)	Aggregate (2003-2004)	160.31
Estimates:		
Estimate 2005 (Top 5 Execs)	Aggregate (2004-2005)	108.62
Estimate 2005 (Execs/Dirs)	Aggregate (2004-2005)	177.31

(C) Security Ownership of Certain Beneficial Owners and Management as of December 31, 2004.

Security Ownership of Certain Record and Beneficial Ownership

Title of Class	Name & Address record/beneficial owner	Amount & nature of record/beneficial ownership (indicate by "r" or "b")	Percent of Class
Common Stocks	Philippine National Oil Co.* PNPC Complex, Merritt Road, Fort Bonifacio, Taguig City, M.M.	3,750,000,006 (r)	40%
Common Stocks	Aramco Overseas Company B.V. ** PO Box 5000, Dhahran 31311, Saudi Arabia	3,750,000,005 (r)	40%
Common Stocks	PCD Nominee Corporation (Filipino)*** G/F MSE Bldg., 6767 Ayala Avenue Makati City	531,089,091 (r)	5.66%
Common Stocks	PCD Nominee Corporation (Foreign)*** G/F MSE Bldg., 6767 Ayala Avenue Makati City	503,976,134 (r)	5.38%

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

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

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

(1) Security Ownership of Management

Title of Class	Name & Address record/beneficial owner	Amount & nature of record/beneficial ownership (indicate by "r" or "b")	Percent of Class
Common Stock	Nicasio I. Alcantara Petron MegaPlaza 358 Sen. Gil Puyat Avenue Makati City	1,238,705 (r)	0.013%
Common Stock	Khalid D. Al-Faddagh Petron MegaPlaza 358 Sen. Gil Puyat Avenue Makati City	1 (r)	Nil
Common Stock	Basil A. Abul-Hamayel Petron MegaPlaza 358 Sen. Gil Puyat Avenue Makati City	1,000 (r)	Nil
Common Stock	Bernardino R. Abes 5 Magsaysay st. Xavierville III Loyola Heights, Quezon City	1 (r)	Nil
Common Stock	Khalid G. Al-Buainain Saudi Arabian Oil Co. Dhahran, 31311 Saudi Arabia	1 (r)	Nil
Common Stock	Herminio S. Aquino 184 E. Rodriguez Jr. Avenue Libis, Quezon City	15,000 (r)	Nil
Common Stock	Bob D. Gothong Gothong Compound One Wilson Street Lahug, Cebu City	2,814 (r)	Nil
Common Stock	Motassim A. Al-Maashouq P.O. Box 9457 Saudi Arabian Oil Co. Dhahran 31311 Saudi Arabia	1 (r)	Nil
Common Stock	Douhan H. Al-Douhan P.O. Box 1740 Dhahran, Saudi Arabia	1,000 (r)	Nil
Common Stock	Jose Luis U. Yulo, Jr. 19 Don Jesus Blvd., Alabang Hills Muntinlupa, Metro Manila	3,000 (r)	Nil
Common Stock	Walter A. Tan No. 34 Seoul Street, B.F. Homes Las Piñas City, Metro Manila	382,242 (r)	Nil

Common Stock	Alfred A. Trio 32 PBR Housing Limay, Bataan	263,313 (r)	Nil
Common Stock	Jose K. Campos, Jr. No. 24 King Fisher St., Green Meadows Ugong Norte, Quezon City	719,278 (b) 713,997 (r)	0.015%
Common Stock	Antonio G. Pelayo 7085-A Champaca St. Guadalupe Viejo, Makati City	158,668 (r)	Nil
Common Stock	Rosario R. Eijansantos 128 Moscow cor. Canberra Street Green Park Vill, Manggahan, Pasig City	235,689 (r)	Nil
Common Stock	Ma. Concepcion F. de Claro 46 North Road, Coronado Heights Mandaluyong City	47,513 (r)	Nil
Common Stock	Luis A. Maglaya 15-D Park Avenue Townhomes 20th Avenue, Cubao, Quezon City	68,550 (r)	Nil

As of December 31, 2004, the total number of shares owned by the Directors and officers is 3,850,773.

(2) Voting Trust Holders of 10% or more

There is no voting trust between PNOC and AOC.

(3) Changes in Control

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

(D) Certain Relationships and Related Transactions

1. The long-term leases between PNOC and Petron since 1994 over various parcels of land.
2. The "Parents" of the Company are:

(a) Philippine National Oil Co. - 40%
(b) Aramco Overseas Co. B.V. - 40%

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

(E) Corporate Governance

Pursuant to the requirements of the Securities and Exchange Commission, the Corporate Secretary and Compliance Officer has submitted last January 2005 the required yearly certification to the SEC on the extent of compliance by the Company with its Corporate Governance Manual.

With the election of two (2) independent Directors to the Petron Board; the election of members of the Audit, Compensation and Nomination Committees; the regular conduct of meetings, faithful attendance of Directors at such meetings and the proper discharge of functions of the Board and its Committees; the conduct of training/seminar for Corporate Governance for incoming Directors and Officers; and strict adherence to applicable accounting standards and disclosure requirements, the Company is in substantial compliance with its Corporate Governance Manual.

A performance evaluation system to assess the performance of Directors, Board Committees and the Board itself and a program to facilitate compliance review and assessment are currently being developed.

PART V - EXHIBITS AND SCHEDULES

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

(a) Exhibits
Exhibit 1 - Audited Financial Statements
Exhibit 2 - Index to Financial Statements & Supplementary Schedules

(b) Reports on SEC Form 17-C

1. Petron's Bataan Refinery shutdown its gas oil hydrotreater (GOHT-1) facility in the afternoon of December 27, 2003.
2. Petron's gas oil hydrotreater (GOHT-1) facility at its Bataan Refinery is now back in operation after completion of repairs and tests.
3. Election of Mr. Basil A. Abul-Hamayel as Vice President.
4. Creation of a Direct Retailing Subsidiary (Outside Subic)
5. GOHT-3 & LVN Isomerization Projects re: BOI Requirements
6. Inter-Company Advance for Service Station Sites amounting to P196 million
7. Authority to negotiate for a US$150 million Long Term Loan
8. Approved the 2003 Audited Financial Statement
9. Petron's Bataan Refinery experienced a total plant shutdown last March 22, 2004 due to total power failure. The power failure was initiated by a fault in the NPC 69KV supply line to the City of Balanga Bataan. Despite the emergency shutdown, supply of petroleum products to Petron's customers will not be affected.
10. Authorized Management to borrow a loan of up to US$150 million. The loan will be used to fund the Isomerization Unit and Gas Oil Hydrotreater and other capital expenditures.
11. Approval of Audit Committee recommendation to re-appoint SGV as Petron's external Auditor for the years 2004-2006.
12. Resignation of Mr. Antonio G. Pelayo as Controller.
13. Appointment of Ms. Ma. Concepcion de Claro as Controller.
14. Delegation to Management of Approval of Interim Financial Report
15. Holding of Petron's Annual Stockholders' Meeting on July 26, 2004.
16. Setting of June 2, 2004 as the record date for the Annual Stockholders' Meeting and closing of stock transfer books from June 3 to June 7, 2004.
17. Approval of Nomination Committee recommendation for candidates for election as Incoming Directors
18. Funding in the amount of US$1.51 million for Distribution Optimizer and the contract award for said project.
19. Inter-company advances to NVRC in the amount of P80 million.
20. Award of contracts for Plant Reliability Excellence Program Phase 2 and for the Point of Sales (POS) and Back Office System.
21. Declaration of a cash dividend of P0.20 per share to stockholders of record of the Corporation as of the close of trading hours on June 2, 2004, payable on June 28, 2004.
22. Creation of a Proxy Validation Committee.
23. Resignation of Mr. Ziyad M. Al-Shiha as Vice President of Petron Corporation effective May 31, 2004 due to his new assignment given by Saudi Aramco.
24. US$100 Million Loan Agreement with Petron Corporation as Borrower, Citibank, N.A., Manila Branch/Citigroup Global Markets Asia Limited and ING Bank, N.V. and Samba Financial Group as

Coordinating Arranges, and Norddeutsche Landesbank Girozentrale, Singapore Branch, as Lender was signed on June 22, 2004.

25. Re-appointment of Sycip, Gorres and Velayo as the independent auditor of Petron Corporation for the year 2004.
26. Election of Directors and Executive Officers of Petron Corporation.
27. Appointment of the members to the Compensation Committee, Audit Committee and Nomination Committee of the Board.
28. Funding in the amount of P431.4 million for capital expenditures to cover Supply, Marketing and Refinery projects and improved communications.
29. SEC approved the incorporation of Pandacan Depots Services, Inc. (PDSI) last September 29, 2004 and is equally owned by the 3 oil companies.
30. Election of Mr. Herminio S. Aquino as the new Director of Petron effective November 24, 2004 vice Mr. Francisco L. Viray who resigned.
31. Appointment of new member to the Audit Committee, Compensation Committee and Nomination Committee.
32. Endorsement of the 2005-2009 Business Plan and 2005 Capital Program.
33. 2005 Operating Plan and Budget
34. Funding in the amount of P437.2 million and US$2.5 million for various major and miscellaneous capital program.
35. Contract award for the Refinery Power System Upgrade, Phase 3.
36. Property transfer and inter-company advances to Marketing and Realty subsidiaries.

The Company also submitted the following press and photo releases:

1. Press Release on January 22, 2004 entitled "Petron Subsidiary to bring Marketing and Service to a Higher Level".
2. Press Release on March 24, 2004 entitled "Petron Posts P3.1B Net Income for 2003".
3. Press Release on May 14, 2004 entitled "Petron Registers P786 Million Income in 1st Quarter."
4. Press Release on November 12, 2004 entitled "Petron Posts 2.36 B Income as of September 2004".
5. Press Release on September 2, 2004 entitled "Quezon City Government Lauds Petron Gas Station".
6. Press Release on July 26,2004 entitled "Petron Registers 1.36 B Income for 1st Half of 2004".
7. Press Release on August 16, 2004 entitled "Petron Corp. Named One of Asia's Best Companies".
8. Press Release on September 30, 2004 entitled "Adjusts LPG and Diesel Prices".
9. Press Release on Septembr 10, 2004 entitled " Petron To Hold Current Prices If Crude Oil Sustains Downward Trend".
10. Press Release on June 22, 2004 entitled " Petron's $100-M Clean Air Loan Signed".
11. Press Release on April 16, 2004 entitled "Petron Launches Road Safety Campaign For Kids".