

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 6. (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code:
incorporation or organization
7. 358 Senator Gil Puyat Avenue, Makati City 1200
Address of principal office Postal Code
8. (0632) 886-3888
Registrant's telephone number, including area code
9. N/A
(Former name, former address, and former fiscal year, if changed since last report.)
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

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

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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 No

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

Yes No

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

DOCUMENTS INCORPORATED BY REFERENCE

N o n e

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-Ultrion 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 transshipment 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 Thermoform 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:

Period	Highest Close		Lowest Close	
	Price	Date	Price	Date
2004				
1 st Quarter	3.55	13-Feb-04	2.34	05,08-Jan-04
2 nd Quarter	3.40	27,28-Apr-04	2.75	01-Apr-04
3 rd Quarter	3.05	01,02,06-Jul-04	2.42	24-Aug-04
4 th Quarter	3.35	08-Nov-04	2.80	13,15,18-Oct-04
2003				
1 st Quarter	1.78	27-Mar-03	1.54	02,06,07-09-Jan-03
2 nd Quarter	2.18	16-Apr-03	1.78	02-June-03
3 rd Quarter	2.32	17-Jul-03	1.88	29-Aug-03
4 th 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 ₱ 1.36 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 P 1.25 billion pertained to the P 3.11 billion earnings for the period ended December 2003 less dividends declared of P 1.88 billion.

2002

As of December 31, 2002, Petron's consolidated assets stood at P 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 P 980 million as the cash inflows from operating activities of P 6.2 billion exceeded the combined cash outflows of P 5.21 billion under investing and financing activities.

Receivables increased by P 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 P 1.92 billion as a result mainly of the full utilization of net operating loss carryover.

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

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

Liabilities for crude oil and petroleum product importations rose by P 1.69 billion due to the 38% 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 P 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 P 242 million this year compared with the P 2.91 billion last year driven principally by the build-up in operating assets.

2003

For the year 2003, Petron registered a positive P 2.9 billion operating cash flows, lower than the P 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) Accounts 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 amortization	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)	P 21,224	P 19,670	P 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

Higher crude prices

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.

Inflation and Interest Rates

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. Thermoform 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 Karlsruhe, 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

Compensation of Officers and Directors

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. Eijasantos	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 20 th 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 September 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".

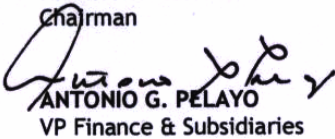
SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on APR 14 2005, 2005.

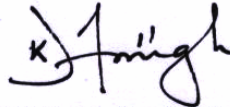
By:



NICASIO I. ALCANTARA
Chairman



ANTONIO G. PELAYO
VP Finance & Subsidiaries



KHALID D. AL-FADDAGH
President/Chief Executive Officer

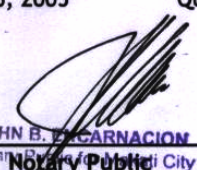


LUIS A. MAGLAYA
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 14 2005 day of APR 14 2005 2005 affiant(s) exhibiting to me his/their Community Tax Certificates, as follows:

NAMES	CTC#	DATE OF ISSUE	PLACE OF ISSUE
Nicasio I. Alcantara	14648324	January 13, 2005	Makati City
Khalid D. Al-Faddagh	18184339	February 18, 2005	Makati City
Antonio G. Pelayo	14664178	January 18, 2005	Makati City
Luis A. Maglaya	00973635	April 16, 2005	Quezon City

Doc. No. 93
Page No. 30
Book No. XII
Series of 2005.


JOHN B. ENCARNACION
 Notary Public
 Notary Commission No. M-347
 Until December 31, 2005
 PTR No. 9462558C 1/20/05 Makati
 IBP No. 631541 1/03/05 Pasig
 Roll of Attorney No. 43192
 PETRON Megaplaza Bldg. 358 Ser., Gil Puyat Ave.
 Makati

PETRON CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2004 and 2003
and Years Ended December 31, 2004, 2003 and 2002

and

Report of Independent Auditors

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Petron Corporation and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petron Corporation and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with the accounting principles generally accepted in the Philippines.

Wilson P. Tan
Partner
CPA Certificate No. 76737
SEC Accreditation No. 0100-A
Tax Identification No. 102-098-469
PTR No. 9404036, January 3, 2005, Makati City

March 1, 2005



Report of Independent Auditors

The Stockholders and the Board of Directors
Petron Corporation

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

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Wilson P. Tan
Partner
CPA Certificate No. 76737
SEC Accreditation No. 0100-A
Tax Identification No. 102-098-469
PTR No. 9404036, January 3, 2005, Makati City

March 1, 2005



PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Millions)

	December 31	
	2004	2003 (As restated - Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	₱4,104	₱3,198
Short-term investments - net (Note 4)	63	69
Receivables - net (Note 5)	11,828	9,491
Inventories - net (Notes 6, 20 and 23)	19,235	15,674
Other current assets	720	730
Total Current Assets	35,950	29,162
Noncurrent Assets		
Investments - net (Notes 7 and 8)	417	462
Property, plant and equipment - net (Note 9)	24,862	21,497
Other noncurrent assets (Note 10)	188	80
Total Noncurrent Assets	25,467	22,039
	₱61,417	₱51,201
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term loans (Note 11)	₱18,477	₱15,385
Liabilities for crude oil and petroleum product importation (Note 20)	6,128	6,560
Accounts payable and accrued expenses (Note 12)	5,191	3,965
Income tax payable	278	14
Current portion of long-term debt (Note 13)	1,615	712
Total Current Liabilities	31,689	26,636
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 13)	7,207	3,288
Deferred income tax liabilities - net (Note 16)	882	1,207
Other noncurrent liabilities (Note 14)	415	400
Total Noncurrent Liabilities	8,504	4,895
Stockholders' Equity (Note 15)		
Capital stock	9,375	9,375
Retained earnings:		
Appropriated	6,906	5,551
Unappropriated	4,858	4,663
Accumulated translation adjustments (Note 16)	85	81
Total Stockholders' Equity	21,224	19,670
	₱61,417	₱51,201

See accompanying Notes to Consolidated Financial Statements.



PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Millions, Except Per Share Amounts)

	Years Ended December 31		
	2004	2003	2002
		(As restated - Note 2)	
SALES (Notes 23 and 28)	₱147,425	₱110,737	₱92,330
COST OF GOODS SOLD (Notes 6, 17, 20, 23, 26 and 27)	136,677	101,353	83,468
GROSS PROFIT	10,748	9,384	8,862
OPERATING EXPENSES (Notes 18 and 20)	4,883	3,837	3,512
INCOME FROM OPERATIONS	5,865	5,547	5,350
OTHER CHARGES - Net			
Interest (Notes 11, 13 and 19)	(1,095)	(1,258)	(811)
Reversal of allowance (provision) for decline in value of investments (Notes 4, 7 and 16)	(91)	12	5
Foreign exchange loss (Note 26)	(22)	(16)	(200)
Bank charges and others	(218)	(166)	(189)
	(1,426)	(1,428)	(1,195)
INCOME BEFORE INCOME TAX	4,439	4,119	4,155
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 16 and 27)			
Current	1,339	782	261
Deferred	(325)	223	973
	1,014	1,005	1,234
NET INCOME	₱3,425	₱3,114	₱2,921
EARNINGS PER SHARE (Note 24)	₱0.37	₱0.33	₱0.31

See accompanying Notes to Consolidated Financial Statements.



PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2004
(Amounts in Millions, Except Per Share Amounts)

	Capital Stock (Note 15)	Retained Earnings (Notes 2 and 15) Appropriated	Unappropriated	Accumulated Translation Adjustments (Notes 2 and 16)	Total
Balance at December 31, 2001, as previously reported	₱9,375	₱4,612	₱3,225	₱91	₱17,303
Effect of change in accounting for:					
Leases	–	–	(377)	–	(377)
Income Taxes	–	–	–	(29)	(29)
Balance at December 31, 2001, as restated	9,375	4,612	2,848	62	16,897
Net income for the year	–	–	2,921	–	2,921
Appropriated for capital projects	–	939	(939)	–	–
Cash dividends - ₱0.15 per share	–	–	(1,406)	–	(1,406)
Foreign currency translation adjustments - net of deferred income tax	–	–	–	7	7
Balance at December 31, 2002, as restated	₱9,375	₱5,551	₱3,424	₱69	₱18,419
Balance at December 31, 2002, as previously reported	₱9,375	₱5,551	₱3,794	₱101	₱18,821
Effect of change in accounting for:					
Leases	–	–	(370)	–	(370)
Income Taxes	–	–	–	(32)	(32)
Balance at December 31, 2002, as restated	9,375	5,551	3,424	69	18,419
Net income for the year	–	–	3,114	–	3,114
Cash dividends - ₱0.20 per share	–	–	(1,875)	–	(1,875)
Foreign currency translation adjustments - net of deferred income tax	–	–	–	12	12
Balance at December 31, 2003, as restated	₱9,375	₱5,551	₱4,663	₱81	₱19,670
Balance at December 31, 2003, as previously reported	₱9,375	₱5,551	₱5,027	₱119	₱20,072
Effect of change in accounting for:					
Leases	–	–	(364)	–	(364)
Income Taxes	–	–	–	(38)	(38)
Balance at December 31, 2003, as restated	9,375	5,551	4,663	81	19,670
Net income for the year	–	–	3,425	–	3,425
Appropriated for capital projects	–	1,355	(1,355)	–	–
Cash dividends - ₱0.20 per share	–	–	(1,875)	–	(1,875)
Foreign currency translation adjustments - net of deferred income tax	–	–	–	4	4
Balance at December 31, 2004	₱9,375	₱6,906	₱4,858	₱85	₱21,224

See accompanying Notes to Consolidated Financial Statements.



PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Millions)

	Years Ended December 31		
	2004	2003 (As restated - Note 2)	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱4,439	₱4,119	₱4,155
Adjustments for:			
Depreciation and amortization	2,104	2,114	2,284
Interest expense	1,439	1,493	1,068
Interest income	(344)	(235)	(257)
Provision (reversal of allowance) for decline in value of investments	91	(12)	(5)
Cylinder deposits written-on	(69)	(224)	-
Unrealized foreign exchange loss - net	48	33	184
Reversal of allowance for doubtful accounts and others	(17)	-	-
Operating income before working capital changes	7,691	7,288	7,429
Changes in operating assets and liabilities (Note 25)	(5,282)	(2,784)	(120)
Interest paid	(1,435)	(1,484)	(1,084)
Income taxes paid	(1,075)	(353)	(284)
Interest received	343	244	254
Net cash provided by operating activities	242	2,911	6,195
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(5,469)	(1,646)	(1,106)
Decrease (increase) in:			
Other receivables	160	515	51
Other noncurrent assets	(114)	(43)	29
Reductions from (additions to):			
Investments	(53)	28	300
Short-term investments	19	-	-
Acquisition of a subsidiary, net of cash acquired (Note 25)	-	(209)	-
Net cash used in investing activities	(5,457)	(1,355)	(726)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans	80,854	27,447	36,647
Payments of:			
Loans	(72,949)	(29,491)	(39,855)
Cash dividends	(1,846)	(1,829)	(1,380)
Cylinder deposits received and others	90	128	109
Net cash provided by (used in) financing activities	6,149	(3,745)	(4,479)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	(28)	(32)	(10)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	906	(2,221)	980
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	3,198	5,419	4,439
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	₱4,104	₱3,198	₱5,419

See accompanying Notes to Consolidated Financial Statements.



PETRON CORPORATION AND SUBSIDIARIES
Mixed Xylene Operation

STATEMENTS OF INCOME
(Amounts in Millions, Except Sales Volume)

	Years Ended December 31	
	2004	2003
SALES	₱3,572	₱2,418
COST OF GOODS SOLD	2,290	1,519
NET INCOME	₱1,282	₱899
Sales Volume (in barrels)	786,731	742,920



PETRON CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Millions, Except Par Value, Share and Per Share Amounts, Exchange Rates and Commodity Volumes)

1. Corporate Information

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

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

The principal activities of the subsidiaries are described in Note 2 under "Basis of Consolidation and Investments."

The registered office address of Petron and its Philippine-based subsidiaries is Petron MegaPlaza, 358 Sen. Gil Puyat Avenue, Makati City. The number of employees of Petron and subsidiaries was 1,234 as of December 31, 2004 and 1,212 as of December 31, 2003.

The consolidated financial statements as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004 were authorized for issue by the Board of Directors on March 1, 2005.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of Petron (the ultimate parent company) and subsidiaries (collectively referred to as "the Company") have been prepared in conformity with the accounting principles generally accepted in the Philippines under the historical cost convention.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.



Adoption of New Statements of Financial Accounting Standards (SFAS)/
International Accounting Standards (IAS)

The Company adopted the following new SFAS/IAS, which became effective for financial statements covering periods beginning on or after January 1, 2004:

- SFAS 12/IAS 12, "Income Taxes," prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of the balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, deferred tax asset for all temporary differences with certain exceptions. The standard provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. The changes in policy were reflected in the consolidated financial statements on a retroactive basis. Adoption of this standard reduced stockholders' equity by ₱38, ₱32 and ₱29 as of January 1, 2004, 2003, 2002, respectively, representing the deferred income tax impact on accumulated translation adjustments pertaining to Overseas Ventures Insurance Corporation Ltd. (Ovincor, a 100%-owned subsidiary incorporated under the laws of Bermuda).
- SFAS 17/IAS 17, "Leases," prescribes the accounting policies and disclosures to apply to finance and operating leases. Adoption of the standard resulted in the recognition of lease payments and receipts under operating leases on a straight-line basis. Previously, all lease payments and receipts under operating leases were expensed or recognized as rental income based on the terms of the lease agreements. The change in policy is reflected in the consolidated financial statements on a retroactive basis. Net income increased by ₱6 and ₱7 in 2003 and 2002, respectively. Retained earnings decreased by ₱364, ₱370, and ₱377 as of January 1, 2004, 2003 and 2002, respectively.

New Accounting Standards Effective in 2005

New accounting standards based on IAS and International Financial Reporting Standards, referred to as Philippine Accounting Standards (PAS) or Philippine Financial Reporting Standards (PFRS), will become effective in 2005. The Company and a joint venture will adopt the following new accounting standards that are relevant to them effective January 1, 2005.

- PAS 19, "Employee Benefits," will result in the use of the projected unit credit method in measuring retirement benefit expense and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It requires a company to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date. Upon adoption of the standard, the transition pension asset under the Company's defined benefit plan will be adjusted retroactively and will increase retained earnings and noncurrent assets by ₱855 as of January 1, 2005 (see Note 22).
- PAS 21, "The Effects of Changes in Foreign Exchange Rates," will result in the elimination of the capitalization of foreign exchange losses. As of December 31, 2004 and 2003, undepreciated capitalized foreign exchange losses included in property, plant and equipment amounted to ₱2,182 and ₱2,411 (see Note 9). Upon adoption of PAS 21, any undepreciated capitalized foreign exchange losses will be adjusted against beginning retained earnings and prior years' consolidated financial statements presented will be restated. The effect will be a



reduction in retained earnings of ₱1,612, ₱1,784 and ₱2,128 (net of income tax effects) as of January 1, 2005, 2004 and 2003, respectively, and reduction of property, plant and equipment by ₱2,182 and ₱2,411 as of December 31, 2004 and 2003, respectively.

- PAS 32, “Financial Instruments: Disclosure and Presentation,” covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a company’s financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include the terms and conditions of financial instruments, types of risks associated with both recognized and unrecognized financial instruments (market risk, price risk, credit risk, liquidity risk and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities and the company’s financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form. Adoption of this standard is not expected to have a significant impact to the Company. New disclosures required by this standard, will be included in the 2005 consolidated financial statements, as applicable.
- PAS 39, “Financial Instruments: Recognition and Measurement,” establishes the accounting and reporting standards for the recognition and measurement of the company’s financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as “at fair value through profit and loss” and derivatives, which are subsequently to be measured at fair value.

PAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that do not qualify as hedges are adjusted to fair value through income. If a derivative is designated and qualify as a hedge, depending on the nature of the hedging relationship, changes in the fair value of the derivative are either offset against the changes in fair value of the hedged assets, liabilities and firm commitments through earnings or recognized in stockholders’ equity until the hedged item is recognized in earnings. A company must formally document, designate and assess the hedge effectiveness of derivative transactions that receive hedge accounting treatment.

Adoption of PAS 39 is expected to have operational and financial statement impact to the Company which is not presently quantifiable. Volatility in the financial statements is anticipated because of the requirement to fair value most financial instruments, including derivative financial instruments. The Company plans to undertake certain detailed activities, which include, among others, the following:

1. Review of contracts for the purpose of identifying and, where required, bifurcating derivatives that are embedded in both financial and non-financial contracts;



2. Development of a financial instruments policy that will cover accounting for financial instruments, to include the preparation of hedge accounting guidelines and requirements for derivatives that are designated and qualify as hedges;
3. Evaluation on the proper classification of financial instruments, including determining whether a financial instrument should be accounted for as debt or equity; and,
4. Assessment of required process and systems changes.

In 2005, the impact of adopting PAS 39 will be retroactively computed, as applicable, and adjusted to January 1, 2005 retained earnings. Prior years' consolidated financial statements, as allowed by the Securities and Exchange Commission, will not be restated.

- PAS 40, "Investment Property," prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits a company to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the consolidated statement of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. Upon effectivity of PAS 40, the Company will adopt the cost model and will continue to carry its investment property at depreciated cost less any accumulated impairment losses. Adoption of this standard is not expected to have a material financial statement impact to the Company. New disclosures required by this standard will be included in the 2005 consolidated financial statements, as applicable.
- PFRS 3, "Business Combination," will result in the cessation of goodwill amortization and a requirement for an annual detailed test for goodwill impairment. Any resulting negative goodwill after performing reassessment will be credited to income. Moreover, pooling of interests in accounting for business combination will no longer be permitted. Upon effectivity, the Company will adjust the negative goodwill amounting to ₱72 (see Note 10) to January 1, 2005 retained earnings. Starting 2005, unamortized goodwill amounting to ₱77 (see Note 10) will be reviewed for impairment.
- PFRS 4, "Insurance Contract," specifies the financial reporting for all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. It provides limited improvements to accounting by insurers for insurance contracts. Adoption of PFRS 4 in 2005 will have no material financial statement impact to the Company.

The Company will also adopt in 2005 the following revised standards:

- PAS 1, "Presentation of Financial Statements," provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statement of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments that management has made in the process of applying the entity's accounting policies. It also requires changes in the presentation of minority interest in the balance sheet and statement of income. Adoption of this standard in 2005 is not expected to have a material impact to the Company. The changes in the financial statement presentation as well as



required disclosures will be included in the 2005 consolidated financial statements, as applicable.

- PAS 2, “Inventories,” reduces the alternatives for measurement of inventories. It does not permit the use of the last in, first out (LIFO) formula to measure the cost of inventories. In the 2005 consolidated financial statements, the Company will change its inventory costing method for petroleum products (except for lubes and greases, waxes and solvents) from LIFO to first in, first out (FIFO) method. The impact of this change will be adjusted retroactively and is expected to increase retained earnings by about ₱513, ₱73 and ₱1,575 as of January 1, 2005, 2004 and 2003, respectively, and to increase inventories by about ₱754 and ₱107 as of December 31, 2004 and 2003, respectively.
- PAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors,” removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors. Adoption of this standard will not have a material financial statement impact to the Company.
- PAS 10, “Events After the Balance Sheet Date,” provides a limited clarification of the accounting for dividends declared after the balance sheet date. Adoption of this standard will not have a material financial statement impact to the Company.
- PAS 16, “Property, Plant and Equipment,” provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total costs of the item shall be depreciated separately. It also requires that the cost of an item of property, plant and equipment should include the costs of its dismantlement, removal or restoration, the obligation for which the Company incurs as a consequence of installing the item or of using the item during a particular period for purposes other than to produce inventories during that period. The Company has yet to determine the impact of these new requirements as quantification will require detailed evaluation of significant items of property, plant and equipment as well as determination of the existence of any constructive and/or legal obligation related to the dismantlement, removal or restoration of certain of its property, plant and equipment. In the 2005 consolidated financial statements, the financial statement impact, if any, of these new provisions will be adjusted retroactively and prior years’ consolidated financial statements will be restated accordingly.
- PAS 17, “Leases,” provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of the lessors. Adoption of this new provision will not have a material financial statement impact to the Company.
- PAS 24, “Related Party Disclosures,” provides additional guidance and clarity in the scope of this standard, the definitions and disclosures for related parties. It also requires disclosure of the compensation of key management personnel by benefit type. New disclosures required by this standard will be included in the 2005 consolidated financial statements, as applicable.



- PAS 27, “Consolidated and Separate Financial Statements,” reduces alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the parent company to make appropriate adjustments to the subsidiary’s financial statements to conform them to the parent company’s accounting policies for reporting like transactions and other events in similar circumstances.
- PAS 31, “Interests in Joint Ventures,” reduces the alternatives in accounting for interests in joint ventures in consolidated financial statements and in accounting for investments in the separate financial statements of a venturer. Interests in joint ventures will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements.

When the Company adopts PAS 27 and PAS 31 in 2005, its investments in subsidiaries and a joint venture will be accounted for under cost method in the separate financial statements. Accordingly, this will reduce the Parent Company’s retained earnings by ₱943, ₱747 and ₱596 as of January 1, 2005, 2004 and 2003, respectively. The carrying amount of the investment will also be reduced by ₱943 and ₱747 as of December 31, 2004 and 2003 and net income will be reduced by ₱196, ₱151 and ₱165 in 2004, 2003 and 2002, respectively.

The following new standards will also be adopted in 2005 but are expected to have no material financial statement impact to the Company.

- PAS 28, “Investments in Associates”
- PAS 33, “Earnings per Share”
- PFRS 1, “First-time Adoption of PFRS”
- PFRS 2, “Share-based Payments”
- PFRS 5, “Non-current Assets Held for Sale”

Basis of Consolidation and Investments

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

The purchase method of accounting is used for acquired businesses. Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company.

The consolidated subsidiaries include:

Subsidiaries	Percentage of Ownership	Country of Incorporation
Ovincor	100	Bermuda
Petrogen Insurance Corporation (Petrogen)	100	Philippines
Petron Freeport Corporation (PFC, formerly Petron Treats Subic Inc.)	100	Philippines
Petron Marketing Corporation (PMC)	100	Philippines
New Ventures Realty Corporation and Subsidiary (NVRC)	79.95	Philippines



In the past, Petron, being partly foreign-owned, was not allowed by the Retail Trade Law to engage in direct retailing. Upon enactment of the Retail Trade Liberalization Act (RTLTA), however, the Philippine Board of Investments has approved Petron's application to establish a retail enterprise, paving the way for the establishment of a direct-retailing subsidiary. On January 27, 2004, the Securities and Exchange Commission issued the Certificate of Incorporation to PMC. PMC operates company-owned, company-operated (COCO) service stations. The COCO stations will play a major part in launching market initiatives to strengthen the "Petron" brand and will give the Company the opportunity to quickly introduce innovations beyond the present services that are available in its stations.

The primary purpose of PFC and PMC is to, among others, sell on wholesale or retail, and operate service stations, retail outlets, restaurants, convenience stores and the like. PFC's service station started commercial operations in September 2004. PMC currently has 3 sites located in Dasmariñas Village, Makati; Filinvest, Alabang; and Carmen, Pangasinan, which started commercial operations in March, June and September 2004, respectively.

NVRC's primary purpose is to acquire real estate and derive income therefrom from its sale or lease. Petrogen and Ovincor are engaged in the business of insurance and re-insurance.

Minority interest in the net income of NVRC, which is not material, is included under "Bank charges and others" account in the consolidated statements of income. Minority interest, which represents the interest in NVRC not held by the Company, is included under "Other noncurrent liabilities" in the consolidated balance sheets.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated.

Other investments are carried at cost. An allowance is provided for any substantial and presumably permanent decline in the carrying values of the investments.

Interest in Joint Venture

The Company's 33.33% joint venture interest in Pandacan Depot Services Inc (PDSI) (see Note 8), incorporated on September 29, 2004, is accounted for under the equity method of accounting. The interest in joint venture is carried in the 2004 consolidated balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the joint venture, less any impairment in value. The 2004 consolidated statement of income reflect the Company's share in the results of operations of the joint venture.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

Investments in Marketable Equity Securities

Investments in marketable equity securities, shown under "Short-term investments" account in the consolidated balance sheets, are stated at the lower of aggregate cost or market value determined as of balance sheet date. The amount by which aggregate cost exceeds market value is accounted



for as a valuation allowance and changes in the valuation allowance are included in the consolidated statements of income. Realized gains or losses from the sale of current marketable securities are included in the consolidated statements of income.

The cost of marketable equity securities used for determining the gain or loss on the sale of such securities is computed using the average method.

Receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amount. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Inventories

Inventories are carried at the lower of cost or net realizable value. For petroleum products, crude oil and tires, batteries and accessories (TBA), the net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, marketing and distribution. For materials and supplies, net realizable value is the current replacement cost.

For financial reporting purposes, Petron uses the FIFO method in costing crude oil and other products and the LIFO method in costing petroleum products (except lubes and greases, waxes and solvents).

Cost is determined using the moving-average method in costing lubes and greases, waxes and solvents, TBA and materials and supplies inventories.

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

For financial reporting purposes, duties and taxes related to the acquisition of inventories are capitalized as part of inventory cost. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the period these charges are incurred.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, amortization and any impairment in value. Land owned by NVRC and its subsidiary, is stated at cost less any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties and taxes and any directly attributable costs of bringing the assets to their working condition and location for its intended use. Cost also includes foreign exchange losses arising from the restatement of long-term foreign currency-denominated loans up to 2001 and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally charged to income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated



depreciation, amortization and impairment loss, if any, are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

For financial reporting purposes, depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

Buildings and related facilities	20-25 years
Refinery and plant equipment	10-16 years
Service stations and other equipment	4-10 years
Computers, office and motor equipment	2-6 years
Leasehold improvements	10 years or the term of the lease, whichever is shorter

The useful life and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

For income tax reporting purposes, depreciation and amortization are computed using the double-declining balance method.

For financial reporting purposes, duties and taxes related to the acquisition of property, plant and equipment are capitalized. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the period these charges are incurred.

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment, interest and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Asset Impairment

The carrying values of long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the Company's interest in the net fair value of acquired identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is stated at cost less accumulated amortization and any impairment in value. Goodwill is amortized on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment when events or changes in circumstances indicate that the



carrying amount may not be recoverable. Goodwill amortization is included under “Bank charges and others” account in the consolidated statements of income.

Negative goodwill is the excess of the Company’s interest in the net fair value of a subsidiary’s identifiable assets and liabilities acquired over the cost of acquisition as of the date of exchange transaction. Negative goodwill is presented in the consolidated balance sheets as a deduction from the assets of the Company in the same presentation as goodwill.

Cylinder Deposits

The LPG cylinders remain the property of the Company and are loaned in the concept of commodatum to dealers upon payment by the latter of an equivalent 100% of acquisition cost of cylinders.

The Company maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than ₱200 million at any given time, to take care of possible returns by dealers.

Cylinder deposits, shown under “Other noncurrent liabilities” account in the consolidated balance sheets, are reduced for estimated non-returns. The reduction is credited directly to income.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Revenue Recognition

Sale is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, title has transferred, selling price is fixed or determinable and collectibility of the selling price is reasonably assured. Interest is recognized on a time proportion basis that reflects the effective yield on the assets. Rental is accounted for on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs generally are expensed as incurred. For financial reporting purposes, interest on loans used to finance capital projects is capitalized as part of project costs (shown as part of construction-in-progress account) during construction period. Capitalization of interest commences when the activities to prepare the asset are in progress and expenditures and interest are being incurred. Interest costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. For income tax reporting purposes, such interest is treated as deductible expense in the period the interest is incurred.

Derivative Financial Instruments

The Company uses commodity price swaps to manage its margin on industrial fuel oil from potential price volatility of crude oil and industrial fuel oil. It also enters into short-term currency



forward contracts to hedge its foreign currency exposure on crude oil importations. The gains or losses on these hedging instruments, including applicable premium amortization, are recognized in current operations simultaneous with the gains or losses on the underlying hedged transactions. In addition, the Company also enters into short-term currency swaps for liquidity purposes.

Pension Costs

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

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term.

Foreign Currency-Denominated Transactions and Translations

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

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

Income Taxes

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits and unused tax losses can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss.



Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Segments

The Company's operating businesses are recognized and managed separately according to the nature of the products and invoices provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business and geographical segments is presented in Note 28.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent Events

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Earnings Per Share

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

3. Cash and Cash Equivalents

	2004	2003
Cash on hand and in banks	₱3,430	₱2,123
Money market placements	674	1,075
	₱4,104	₱3,198



Cash in banks earns interest at the respective bank deposit rates. Money market placements are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective money market placement rates.

4. Short-term Investments

	2004	2003
Marketable equity securities - net	₱60	₱44
Short-term cash investments	3	25
	₱63	₱69

Marketable equity securities are carried at cost, net of allowance for decline in value amounting to ₱23 as of December 31, 2004 and ₱36 as of December 31, 2003.

	2004	2003
Gross unrealized gains from current marketable equity securities	₱59	₱20
Gross unrealized losses from current marketable equity securities	(82)	(56)
Net realized gain from current marketable equity securities included in net income	13	12

5. Receivables

	2004	2003 (As restated - see Note 2)
Trade	₱10,136	₱8,100
Others	2,397	1,970
	12,533	10,070
Less allowance for doubtful accounts	705	579
	₱11,828	₱9,491

6. Inventories

	2004	2003
At cost:		
Petroleum	₱9,373	₱6,493
Crude oil and others	9,151	8,485
At net realizable value -		
TBA products, materials and supplies	711	696
	₱19,235	₱15,674

Using the moving-average method, the cost of petroleum products would have increased by ₱3,419 as of December 31, 2004 and ₱2,081 as of December 31, 2003.



Cost of TBA products, material and supplies amounted to ₱948 as of December 31, 2004 and ₱884 as of December 31, 2003.

7. Investments

	2004	2003
Notes and bonds - at amortized cost	₱330	₱273
Shares of stock - at cost	69	71
Joint venture interest in PDSI (see Note 8)	4	-
Other investments (net of allowance for decline in value of ₱580 in 2004 and ₱476 in 2003)	14	118
	₱417	₱462

Notes and bonds accounts are investments in government securities of Petrogen, which are deposited with the Insurance Commission in accordance with the provision of the Insurance Code, for the benefit and security of policy holders and creditors of Petrogen.

Other investments account includes Petron's matured investments with an institution under financial difficulty or receivership. In 2002, this was written down to ₱104 based on a rehabilitation or recovery program which has been drawn up for implementation by this institution.

In December 2003, the Company converted these investments into redeemable preferred voting shares in the institution pursuant to a court-approved rehabilitation plan. The preferred shares are redeemable on a pro-rata basis vis-à-vis other preferred shareholders beginning on the third year of operation of the institution, subject to certain conditions, until full payment of the total redemption value projected to be on the 18th year of the rehabilitation period. The equity investment was recorded at ₱104, the carrying amount of the matured investments at the time of conversion.

In December 2004, the Company provided additional allowance for decline for the remaining value of the investment amounting to ₱104 (see Note 18).

8. Investment in a Joint Venture

The Company has a 33.33% joint venture interest in PDSI, which is involved in receiving, storing and handling the out-loading of petroleum products of the three major oil companies to serve the fuel requirements of their respective customers. PDSI was incorporated on September 29, 2004 (see Note 7).

As of December 31, 2004, the carrying amount of the investment is ₱4. Financial information pertaining to PDSI as December 31, 2004 includes current assets amounting to ₱10, noncurrent assets amounting to ₱4 and current liabilities amounting to ₱10 (see Note 29d).



9. Property, Plant and Equipment

	Buildings and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction- in-Progress	Total
Net carrying amount, at January 1, 2004	₱5,280	₱11,170	₱510	₱331	₱2,604	₱1,602	₱21,497
Additions	88		11	8	148	5,214	5,469
Reclassifications	583	174	171	163	37	(1,128)	-
Depreciation and amortization charges for the year	(373)	(1,335)	(167)	(116)	(113)	-	(2,104)
Net carrying amount, at December 31, 2004	₱5,578	₱10,009	₱525	₱386	₱2,676	₱5,688	₱24,862
At January 1, 2004							
Cost	₱7,156	₱20,142	₱2,767	₱1,508	₱3,371	₱1,602	₱36,546
Accumulated depreciation and amortization	(1,876)	(8,972)	(2,257)	(1,177)	(767)	-	(15,049)
Net carrying amount	₱5,280	₱11,170	₱510	₱331	₱2,604	₱1,602	₱21,497
At December 31, 2004							
Cost	₱7,738	₱20,270	₱2,661	₱1,615	₱3,507	₱5,688	₱41,479
Accumulated depreciation and amortization	(2,160)	(10,261)	(2,136)	(1,229)	(831)	-	(16,617)
Net carrying amount	₱5,578	₱10,009	₱525	₱386	₱2,676	₱5,688	₱24,862

Cumulative capitalized foreign exchange losses, net of depreciation, amounted to ₱2,182 as of December 31, 2004 and ₱2,411 as of December 31, 2003. No foreign exchange adjustment was capitalized in 2004 and 2003.

Interest capitalized in 2004 amounted to ₱98 using a capitalization rate of 8.24% for peso loans and 3.16% for dollar loans. Interest capitalized in 2003 amounted to ₱24 using a capitalization rate of 6.58%.

10. Other Noncurrent Assets

In 2003, this account includes the net balance of positive goodwill amounting to ₱9 arising from the increase in Petron's ownership in NVRC and NVRC's purchase of Las Lucas Development Corporation (Las Lucas).

In May 2003, the Company purchased additional shares of NVRC increasing its ownership from 50% to 79.95%. Details of this additional acquisition are as follows:

Fair value of net assets at acquisition date	₱483
Carrying value of investment	(383)
Deferred income tax liability	(28)
Negative goodwill	₱72

In 2002, shares of stock, under investments account in the consolidated balance sheet, include the downpayment amounting to ₱89 for the purchase by NVRC of 100% equity ownership in Las Lucas, an unlisted company registered in the Philippines. Total aggregate purchase price amounted to ₱301. The purchase was consummated on July 1, 2003.



The fair values of the identifiable acquired net assets of Las Lucas are:

Cash and cash equivalents	₱3
Land	315
Deferred income tax liability	(98)
Fair value of net assets	220
Goodwill arising on acquisition	81
Acquisition cost	₱301

The cash outflow on acquisition is as follows:

Cash acquired with subsidiary	₱3
Cash paid	(301)
Net cash outflow	(₱298)

The negative goodwill and goodwill arising from the increase in ownership in NVRC and NVRC's acquisition of Las Lucas, respectively, are presented in the 2003 consolidated balance sheet net of income tax effect amounting to ₱126 pertaining to the fair value adjustment on the land.

Goodwill is amortized over twenty years starting 2004. The movement in goodwill is as follows:

	2004	2003
Cost	₱81	₱81
Less: amortization during the year	4	-
Net book value	₱77	₱81

11. Short-term Loans

This account pertains to unsecured peso and dollar loans obtained from local banks at interest rates ranging from 7.0% to 9.0% for peso loans and 1.5% to 3.0% for dollar loans, intended to fund the importation of crude oil and petroleum products, capital expenditures and working capital requirements.

12. Accounts Payable and Accrued Expenses

	2004	2003 (As restated - Note 2)
Accounts payable	₱1,203	₱522
Accrued expenses	1,575	1,332
Specific and other taxes payable	482	438
Others	1,931	1,673
Total	₱5,191	₱3,965

Other payables include unearned income arising from trade related transactions.



13. Long-term Debt

	2004	2003
Syndicated dollar bank loan (net of debt issue costs amounting to ₱100 in 2004)	₱5,534	₱-
Unsecured peso loans	3,288	4,000
	8,822	4,000
Less current portion	1,615	712
	₱7,207	₱3,288

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

Original Amount	NORD - LB US\$100 million	Landbank - ₱2 billion	Citibank - ₱2 billion
Payment Terms	6 semi-annual installments starting on the 30th month from June 2004 up to June 2009	8 equal quarterly installments starting December 2004 up to September 2006	13 equal quarterly installments starting April 2004 up to April 2007
Interest (2004)	3.0% to 3.5%	9.0% to 10.0%	9.5% to 10.0%
Security	None	None	None
Major Covenants	Maintenance of certain financial ratios	None	Maintenance of certain financial ratios

As of December 31, 2004, the Company is in compliance with its loan covenants.

Loan maturities (gross of ₱100 debt issue costs) for the next 5 years are as follows:

Year	Amount
2005	₱1,615
2006	1,929
2007	1,857
2008	2,254
2009	1,267
	₱8,922

14. Other Noncurrent Liabilities

	2004	2003
Cylinder deposits	₱274	₱256
Minority interest	110	103
Others	31	41
	₱415	₱400



15. Stockholders' Equity

a. Capital Stock

	Number of Shares	Amount
Authorized - ₱1.00 par value	10,000,000,000	₱10,000
Issued and outstanding	9,375,000,000	₱9,375

b. Retained Earnings

i. This account includes Petron's accumulated equity in net earnings of subsidiaries and a joint venture of ₱943 in 2004 and ₱747 in 2003, which are not currently available for dividend declaration.

ii. Declaration of Cash Dividends

In 2004, the Company declared a cash dividend of ₱0.20 per share amounting to ₱1,875 to all stockholders of record as of May 19, 2004. In 2003, a cash dividend of ₱0.20 per share amounting to ₱1,875 was declared to all stockholders of record as of May 29, 2003. In 2002, a cash dividend of ₱0.15 per share amounting to ₱1,406 was declared to all stockholders of record as of June 6, 2002.

iii. Appropriation for Capital Projects

Petron appropriated ₱1,355 in 2004 and ₱939 in 2002 for future capital projects.

16. Income Taxes

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

	2004	2003 (As restated - see Note 2)
Deferred tax assets:		
Inventory differential	₱1,095	₱657
Rental - net	174	171
Unamortized past service pension costs	38	49
Unrealized foreign exchange loss	18	13
Various allowances, accruals and others	468	383
	1,793	1273
Deferred tax liabilities:		
Excess of double declining over straight-line method of depreciation and amortization	1,098	1,074
Capitalized foreign exchange losses	570	627

(Forward)



	2004	2003 (As restated - see Note 2)
Capitalized taxes and duties on inventories deducted in advance	₱431	₱348
Fair market value adjustment on land in a purchase acquisition	126	126
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	450	305
	2,675	2,480
	₱882	₱1,207

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

	2004	2003 (As restated - see Note 2)	2002
Income tax computed at statutory income tax rate	₱1,420	₱1,318	₱1,330
Additions (reductions) resulting from:			
Income subject to income tax holiday (see Note 27)	(410)	(288)	(117)
Provision (reversal of allowance) for decline in value of investments	29	(4)	(2)
Interest income subjected to lower final tax and others	(25)	(21)	23
Provision for income tax	₱1,014	₱1,005	₱1,234

Provision for income tax includes final withholding tax on interest income.

17. Cost of Goods Sold

	2004	2003	2002
Direct materials	₱133,838	₱98,444	₱80,750
Depreciation and amortization	1,261	1,190	1,180
Employee costs	353	330	345
Others	1,225	1,389	1,193
	₱136,677	₱101,353	₱83,468



18. Operating Expenses

	2004	2003 (As restated - see Note 2)	2002
Selling and administrative:			
Employee costs	₱1,218	₱979	₱920
Depreciation and amortization	843	924	1,104
Purchased services and utilities	646	430	494
Maintenance and repairs	545	467	378
Advertising	403	227	277
Rental (see Note 20)	271	260	265
Materials and office supplies	260	46	245
Taxes and licenses	177	197	111
Provision for doubtful accounts/accounts receivable written-off	162	-	65
Insurance	71	47	65
Entertainment, amusement and representation	16	14	13
	4,612	3,591	3,937
Other operating charges (income):			
Rental	(274)	(276)	(250)
Price adjustments	202	199	-
Others	343	323	(175)
	271	246	(425)
	₱4,883	₱3,837	₱3,512

19. Interest

	2004	2003	2002
Interest income on:			
Marketable equity securities	₱180	₱117	₱130
Trade receivables	124	33	17
Product loaning	28	21	23
Cash in banks	8	58	59
Investment bonds	2	4	21
Others	2	2	7
	344	235	257
Interest expense on:			
Loans	(1,336)	(1,459)	(1,068)
Product borrowings	(87)	(34)	-
Others	(16)	-	-
	(1,439)	(1,493)	(1,068)
	(₱1,095)	(₱1,258)	(₱811)



20. Related Party Transactions

The significant transactions with related parties are as follows:

2004				
Name of Company	Relationship	Nature of Transaction	Transaction Amount	Balance at end of Year
Saudi Aramco	Stockholder	Crude purchases	₱73,711	₱3,963
Philippine National Oil Company (PNOC)	Stockholder	Leases	142	-
2003				
Name of Company	Relationship	Nature of Transaction	Transaction Amount	Balance at end of Year
Saudi Aramco	Stockholder	Crude purchases	₱62,915	₱3,386
PNOC	Stockholder	Leases	127	-

- a. Petron and Saudi Arabian Oil Company (Saudi Aramco) have a term contract to purchase and supply, respectively, 90% of Petron's monthly crude oil requirements over a 20-year period at Saudi Aramco's standard Far East selling prices. Outstanding liabilities of Petron for such purchases are shown as part of "Liabilities for crude oil and petroleum product importation" account in the consolidated balance sheets.
- b. Petron has long-term lease agreements with PNOC until August 2018 covering certain lots where its refinery and other facilities are located. Lease charges on refinery facilities escalate at 2% a year, subject to increase upon reappraisal (see Note 21).

21. Operating Lease Commitments

Company as lessee

Future minimum rental payable under the non-cancelable operating lease agreements as of December 31 follows:

	2004	2003
Within one year	₱382	₱365
After one year but not more than five years	1,508	1,509
After five years	3,102	3,483
	₱4,992	₱5,357

Company as lessor

Future minimum rental receivable under the non-cancelable operating lease agreements as of December 31 follows:

	2004	2003
Within one year	₱195	₱251
After one year but not more than five years	220	387
After five years	161	180
	₱576	₱818



22. Pension Plan

Petron and its subsidiaries maintain a qualified, noncontributory, trustee pension plan covering substantially all permanent, regular, full-time employees.

Actuarial valuation is obtained for the plan every year. As of the most recent valuation date of the Company's pension plan (December 31, 2004), the fair value of the plan assets amounted to ₱3,419. The actuarial present value of pension benefits, based on the discount rate of 12%, amounted to ₱2,564. The excess of the fair value of the plan assets over the actuarial present value of pension benefits amounted to ₱855. Other principal actuarial assumptions used to determine retirement benefits include an expected long-term rate of return on plan assets of 10%, discount rate of 12 % and average salary increase rate of 9%.

No pension expense was provided in 2004, 2003 and 2002.

23. Supplementary Information

a. Processing License Agreement

Petron was granted by Pennzoil-Quaker State International Corporation (Pennzoil) another 5 years of exclusive right to manufacture, sell and distribute in the Philippines certain Pennzoil products until December 31, 2008. The agreement also includes the license to use certain Pennzoil trademarks in exchange for the payment of royalty fee based on net sales value. Royalty expense amounted to ₱1.20 in 2004 and ₱1.55 in 2003 and ₱1.97 in 2002 are included as part of cost of sales account in the consolidated income statements.

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

The Company entered into various fuel supply contract with NPC commencing on March 1, 2004 until December 31, 2004. Under the agreement, the Company supplies the bunker fuel and diesel fuel oil requirements to selected NPC plants and NPC-supplied Independent Power Plants.

In the bidding held last March 18 to 23, 2004 for NPC fuel requirements, Petron won a total of 39,922 kilo-liters (KL) of diesel fuel and 555,919 KL of bunker fuel worth ₱671 and ₱6,039, respectively.

NPC exercised its option to extend the supply period of the power plants covered under the year 2004 contract up to a maximum of six (6) months since the contracted quantities have not been fully lifted by December 31, 2004. Petron's contract with NPC allows for continued lifting of fuel until the contracted quantities are lifted, provided the extension does not exceed six months.

After the mutual agreement between the Company and NPC, the years 2002-2003 contract for NPC's Small Power Utilities Group Power Plants has been extended up to February 28, 2005.

Sales from the above transactions amounted to ₱11,453 in 2004, ₱7,769 in 2003 and ₱6,529 in 2002.



24. Earnings Per Share (EPS)

	2004	2003 (As restated - see Note 2)	2002
Net income	₱3,425	₱3,114	₱2,921
Weighted average number of shares	9,375,000,000	9,375,000,000	9,375,000,000
EPS	₱0.37	₱0.33	₱0.31

25. Supplemental Disclosures of Cash Flow Information

a. Changes in operating assets and liabilities

	2004	2003 (As restated - see Note 2)	2002
Decrease (increase) in assets:			
Trade receivables	(₱2,502)	(₱268)	(₱1,062)
Inventories	(3,561)	(4,304)	69
Other current assets	(23)	(163)	(254)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum product importation	(445)	1,825	1,702
Accounts payable and accrued expenses	718	(73)	(400)
	(5,813)	(2,983)	55
Provisions (reversal of allowance) for doubtful accounts, inventory obsolescence and others	531	199	(175)
	(₱5,282)	(₱2,784)	(₱120)

b. Acquisition of a subsidiary by NVRC

The fair values of the identifiable acquired net assets of Las Lucas in 2003 are:

Cash and cash equivalents	₱3
Land	315
Goodwill	81
Deferred income tax liability	(98)
Total purchase price	301
Advances made in 2002	(89)
Cash and cash equivalents	(3)
Cash flow on acquisition, net of cash acquired	₱209



26. Financial Instruments

The Company uses IFO-Dubai crack spread swaps to protect its margin on export and domestic sales of industrial fuel oil products. The cost base of the Company's industrial fuel is that of the crude oil, most of which is supplied by Saudi Aramco and is priced based on Dubai/Oman crude price. On the other hand, the selling price of the industrial fuel is based on Singapore's Mean of Platts (MOPS). Under the crack spread swap, the Company and its counterparties agree to a monthly exchange of cash settlements based on a specified reference price, depending on the commodity being hedged. For the IFO portion of the crack spread swap that hedges the price risks on industrial fuel oil products, the Company acts as the floating rate payer and the reference price index is the monthly MOPS for HSFO 180 CST. For the Dubai portion that hedges the price risks on crude oil, the Company acts as the fixed rate payer and the reference price index is the monthly average for Platt's Dubai Crude. The swap agreements effectively hedge the Company's margin on industrial fuel oil.

As of December 31, 2003, the Company has outstanding commodity price swaps covering industrial fuel oil with an aggregate notional quantity of 64,614 metric tons (MT), and a weighted average fixed rate of US\$156.78 per MT, respectively. The net mark-to-market losses on these swaps amounted to ₱32 in 2003. As of December 31, 2004, there are no such outstanding contracts. Also, as of December 31, 2003, the Company has outstanding commodity price swaps covering Dubai crude oil with an aggregate notional quantity of 420,000 barrels, and a weighted average fixed rate of US\$25 per barrel. The net mark-to-market gains on these swaps amounted to ₱66 as of December 31, 2004, there are no such outstanding contracts.

The Company also entered into deliverable and non-deliverable short-term currency forward contracts to hedge its foreign currency exposure on crude oil importations. As of December 31, 2003, the Company has outstanding currency forward contracts with an aggregate notional amount of US\$55, and weighted average contracted forward rate of ₱55.75 to US\$1.00. The net mark-to-market losses on these currency forward contracts amounted to ₱0.67. As of December 31, 2004, the Company has no outstanding deliverable and non deliverable short-term currency forward contracts.

Under current accounting practice, the unrealized mark-to-market losses on the outstanding derivative contracts as of December 31, 2004 and 2003 are presented for disclosure purposes only and are not included in the determination of net income.

27. Registration with the Board of Investments (BOI)

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

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

- a. Income Tax Holiday (ITH) for six years from actual start of Mixed Xylene commercial operations (December 1999);



- b. Tax credits for taxes on duties on raw materials and supplies used for its export products and forming parts thereof; and,
- c. Simplified custom procedures and others.

Petron has availed of ITH credits amounting to ₱410 in 2004, ₱288 in 2003 and ₱117 in 2002.

In October 2003, the BOI approved Petron's application under Republic Act 8479, otherwise known as the Oil Deregulation Law, for new investments at its Bataan Refinery for an Isomerization Unit and a Gas Oil Hydrotreater (Project). The BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from actual start of commercial operations (January 2005);
- b. Duty of three percent and value added tax (VAT) on imported capital equipment and accompanying spare parts;
- c. Exemption from real property tax on production equipment or machinery; and,
- d. Exemption from contractor's tax.

Petron has requested for clarification and possible amendment of the terms and conditions of the Project's BOI registration, mainly with respect to the ITH rate formula and the VAT rate on imported capital. To date, BOI has yet to issue its final ruling.

28. Segment Information

The Company's operating businesses are organized and managed according to the nature of the products marketed, with each segment representing a strategic business unit that offers different products and serves different markets.

The Company's major sources of revenues are as follows:

- a. Sales from petroleum and other related products which include gasoline, diesel, and kerosene offered to motorists and public transport operators through its service station network around the country;
- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance; and,
- c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- d. Sell on wholesale or retail, and operate service stations, retail outlets, restaurants, convenience stores and the like.



The following tables present revenue and income information and certain asset and liability information regarding the business segments for the years ended December 31, 2004 and 2003. Segment assets and liabilities exclude income tax assets and liabilities.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Year Ended December 31, 2004						
Revenue:						
Total revenue	₱147,356	₱531	₱249	₱663	(₱1,374)	₱147,425
Segment results	5,633	505	229	–	(502)	5,865
Net income	3,425	158	31	13	(202)	3,425
Assets and liabilities:						
Segment assets	61,006	1,222	2,324	416	(3,551)	61,417
Segment liabilities	39,032	137	1,674	77	(1,609)	39,311
Other segment information:						
Property, plant and equipment	22,458	2	2,157	160	85	24,862
Depreciation and amortization	2,095	–	2	7	–	2,104
Year Ended December 31, 2003						
Revenue:						
Total revenue	₱110,737	₱527	₱224	₱–	(₱751)	₱110,737
Segment results	5,349	504	206	–	(512)	5,547
Net income	3,114	130	33	(1)	(162)	3,114
Assets and liabilities:						
Segment assets	50,740	1,129	2,198	50	(2,916)	51,201
Segment liabilities	29,994	210	1,579	1	(1,460)	30,324
Other segment information:						
Property, plant and equipment	19,375	2	2,034	–	86	21,497
Depreciation and amortization	2,112	–	2	–	–	2,114

The following tables present additional information on the petroleum business segment of the Company for 2004 and 2003:

	Retail	Lube	Gasul	Industrial	Others	Total
Year Ended December 31, 2004						
Revenue	₱65,075	₱1,107	₱7,650	₱54,594	₱18,930	₱147,356
Property, plant and equipment	4,590	12	206	65	17,585	22,458
Capital expenditures	577	2	37	21	4,996	5,633
Year Ended December 31, 2003						
Revenue	₱48,676	₱947	₱6,415	₱36,438	₱18,261	₱110,737
Property, plant and equipment	4,046	12	38	62	15,217	19,375
Capital expenditures	695	1	6	35	865	1,602

Geographical segments

The following tables present revenue and expenditure and certain asset information regarding the geographical segments of the Company for the years ended December 31, 2004 and 2003:

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
Year Ended December 31, 2004						
Revenue:						
Local	₱134,275	₱463	₱249	₱660	(₱1,371)	₱134,276
Export/International	13,081	68	–	–	–	13,149



	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
Year Ended December 31, 2003						
Revenue:						
Local	₱96,472	₱470	₱224	₱-	(₱751)	₱96,415
Export/International	14,265	57	-	-	-	14,322

29. Other Matters

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

In November 1999, the Department of Finance (DOF) Center ExCom cancelled Tax Debit Memos (TDMs) worth ₱475, the related TCCs and their assignments. The BIR implemented this with a letter of assessment worth ₱651 deficiency taxes (inclusive of interest and charges) for the years 1995 to 1997, as a result of the cancellation. The Company contested on the grounds that the assessment has no factual and legal basis and that the cancellation of the TDMs was void. The Company elevated this protest to the CTA on July 10, 2000 where the case is still pending.

In January 2002, the BIR issued another assessment worth ₱739 deficiency taxes (inclusive of interest and charges) for the years 1995 to 1998, as a result of the cancellation of TCCs and TDMs by the DOF Center ExCom. The Company protested this assessment on the same legal grounds used against the tax assessment issued by the BIR in 1999. The Company elevated the protest to the CTA where the case is pending.

In the TCC-related criminal cases, two of which have been filed by the Office of the Ombudsman with the Sandiganbayan and four are currently with the Ombudsman on Preliminary Investigation, Petron officials are uniformly charged or accused of having conspired with former officials of DOF One-Stop-Shop Center, BIR and the Bureau of Customs (BOC) and with private individuals to defraud the government by accepting fraudulently issued TCCs and thereafter, by using these TCCs in payment of taxes. The Petron officers had acted on or signed the Deeds of Assignment in official capacities. The Company continues to express its full confidence in the integrity of its officers and employees, former 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 transaction and for each TCC that was duly



assigned and accepted the Company issued an equivalent credit note that was used to pay for fuel products of the Company.

Petron officers who were already arraigned in the first Sandiganbayan case went up to the Supreme Court (SC) after the Sandiganbayan reversed an earlier ruling dismissing the case for failure on the part of the Ombudsman to prosecute.

- b. Petron has unused letters of credit totaling approximately ₱12 as of December 31, 2004 and ₱4 as of December 31, 2003.

- c. Implementation of RA No. 8749, "Philippine Clean Air Act of 1999"

Petron has been fully complying with the Clean Air Act (CAA) since the law was implemented. It introduced its low-sulfur "Diesel Max" to the market three months ahead of the CAA-mandated schedule. Under the CAA law, oil firms are mandated to lower the sulfur content of ADO to 0.05% by January 1, 2004 nationwide.

Beyond CAA compliance, Petron is the only oil company that has invested substantial resources to upgrade its production capabilities to meet CAA specifications. It recently commissioned in January 2005 its Isomerization Unit that will enable the Company to produce isomerates for blending with gasoline to meet current specifications. The unit is part of the \$100 million refinery project that also includes a Gas Oil Hydrotreater. With these two units, Petron will be the only oil firm that can serve the local market's demand for CAA-compliant fuels entirely from local production.

- d. Pandacan Terminal Operations

The City Council of Manila (City Council), citing concerns of safety, security and health, passed City Ordinance No. 8027 reclassifying the areas occupied by the Oil Terminals of Petron, Shell and Caltex from Industrial to Commercial, making the operation of the terminals therein unlawful.

In an effort to address the concerns of the City Council, the oil companies implemented a Scale Down Program to reduce tankage capacities, create buffer zones and consolidate operation of their facilities. The Petron Linear Park was inaugurated last December 17, 2003. This serves as additional safety and security buffer zone, further enhancing the safety of the facility.

Of the 28 tanks that were committed to be dismantled under the Memorandum of Understanding signed between the three oil companies, the Department of Energy and the City of Manila, 26 have been decommissioned/ dismantled. The dismantling of the remaining two tanks is contingent upon full integration of the Pandacan Operations.

To date, the first phase of the engineering, procurement and construction is already more than 93% complete. On the other hand, the second phase of the engineering, procurement and construction is 25% complete.

The Joint Venture (PDSI) took over the operations of the "scaled-down" facility on November 1, 2004 after the City of Manila issued the business permit applied for.



Simultaneous with the Scale Down Program, Petron filed a petition with the Regional Trial Court (RTC) to annul the City Ordinance and enjoin the City Council of Manila, as well as Mayor of Manila, from implementing the same. The RTC 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 has been referred to and is undergoing mediation before the Philippine Mediation Center.

e. Navotas Business Tax

In the case of Petron vs. Mayor Tobias Tiangco concerning the imposition of business tax for the sale of diesel at the Navotas Bulk Plant, the Temporary Restraining Order issued by the SC is still in effect and will prevent the closure of the Bulk Plant until the case is decided by the SC.

f. Ownership of LPG Cylinders in the Market

Liquefied Petroleum Gas Marketers Association (LPGMA), a group of independent refillers of LPG claims to have acquired ownership of LPG cylinders of Petron, Pilipinas Shell and Total Philippines in good faith. LPGMA claims it can exercise all rights of ownership over the cylinders, praying judgment from the RTC of Pasig City authorizing its members to repaint/obliterate the marks on the oil companies' 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 oil companies to buy back the cylinders.

The case is currently pending before the RTC.



COVER SHEET

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SEC Registration Number

P E T R O N C O R P O R A T I O N A N D S U B S I D I A R I

E S

(Company's Full Name)

P e t r o n M e g a P l a z a , 3 5 8 S e n . G i l P u

y a t A v e n u e , M a k a t i C i t y

(Business Address: No. Street City/Town/Province)

Luis A. Maglaya

(Contact Person)

886-3888

(Company Telephone Number)

1	2	3	1
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Month Day
(Fiscal Year)

1	7	-	A	
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(Form Type)

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Month Day
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

PETRON CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULES
TO THE CONSOLIDATED FINANCIAL STATEMENTS
REQUIRED BY THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2004
AND AUDITORS' REPORT

Philippine Pesos

**Report of Independent Auditors
On Supplementary Schedules**

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

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of Petron Corporation and Subsidiaries included in this Form 17-A and have issued our report thereon dated March 1, 2005. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code (SRC) Rule 68.1 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Wilson P. Tan
Partner
CPA Certificate No. 76737
SEC Accreditation No. 0100-A
Tax Identification No. 102-098-469
PTR No. 9404036, January 3, 2005, Makati City

March 1, 2005

PETRON CORPORATION AND SUBSIDIARIES
INDEX TO SUPPLEMENTARY SCHEDULES
FORM 17-A, Item 7

Page No.

Statement of Management's Responsibility for Financial Statements

Report of Independent Public Accountants on Supplementary Schedules

Statement of Cost of Goods Manufactured and Sold

A. Marketable Securities - (Current Marketable Equity Securities and Other Short-term Cash Investments)	1
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)	NA
C. Noncurrent Marketable Equity Securities, Other Long-term Investments in Stocks and Other Investments	2
D. Indebtedness to Unconsolidated Subsidiaries and Related Parties	NA
E. Intangible Assets - Other Assets	3
F. Long-term Debt	4
G. Indebtedness to Related Parties (Long-term Loans from Related Companies)	NA
H. Guarantees of Securities of Other Issuers	NA
I. Capital Stock	5

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE A - MARKETABLE SECURITIES
(CURRENT MARKETABLE EQUITY SECURITIES AND
OTHER SHORT-TERM CASH INVESTMENTS)
DECEMBER 31, 2004

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date
Equity Securities			
JG Summit Holdings, Inc.	1,480,800	P 17,395,224	P 3,998,160
Manila Electric Company "A"	137,011	13,399,688	2,123,671
Philippine Long Distance Telephone Co. - Common	11,002	10,983,384	14,962,720
Universal Robina Corporation	295,680	5,139,436	2,838,528
Benpres Holdings Corporation	455,400	4,889,889	309,672
San Miguel Corporation "A"	69,188	1,992,494	4,082,092
House of Investment	255,000	1,290,188	147,900
Victorias Milling Corporation	60,295	294,151	54,266
		<u>55,384,454</u>	<u>28,517,009</u>
Other Trading Securities			
Philippine National Bank - Common	32,725	20,938,486	736,313
China Banking Corporation	42,156	2,211,802	23,607,360
Philippine Long Distance Telephone - Preferred	30,800	870,553	308,000
Manila Electric Company "B"	258,539	2,054,780	6,398,840
First Philippine Holdings "A"	2,752	265,458	82,560
Filipino Telephone Corporation	150	3,195	398
Institute of Marine Pollution	2	75	150
		<u>26,344,349</u>	<u>31,133,621</u>
TOTAL		81,728,803	<u><u>P 59,650,630</u></u>
Less: Allowance for Market Decline		<u>22,078,173</u>	
		<u>59,650,630</u>	
Short-term Cash Investments		<u>3,370,511</u>	
GRAND TOTAL		<u><u>P 63,021,141</u></u>	

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE C - NONCURRENT MARKETABLE EQUITY SECURITIES,
OTHER LONG-TERM INVESTMENTS IN STOCKS, AND OTHER INVESTMENTS
DECEMBER 31, 2004

Name of Issuing Entity and Description of Investment	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE	
	Number Shares of Principal Amount of Bonds and Notes	Amount in Pesos	Equity in Earnings (Losses) of Investees for the Period	Others	Distribution of Earnings by Investees	Others	Number Shares of Principal Amount of Bonds and Notes	Amount in Pesos
Non Current Marketable Equity Securities								
Alabang Golf and Co. Club	1	₱ 1,000,000	₱ -	₱ -	₱ -	₱ -	1	₱ 1,000,000
Alta Vista & Vista Mar Golf Club	1	620,000	-	-	-	-	1	620,000
Apo Golf & Co. Club	1	430,000	-	-	-	-	1	430,000
Bacolod Golf & Co. Club	1	100,000	-	-	-	-	1	100,000
Canlubang Golf & Co. Club	1	990,000	-	-	-	-	1	990,000
Capitol Hills Club	3	773,000	-	-	-	-	3	773,000
Casino de Espanol Cebu	1	701,501	-	-	-	-	1	701,501
Cebu Country Club Inc.	-	-	-	1	-	-	1	1
Celebrity Sports Club	1	210,000	-	-	-	-	1	210,000
Club Filipino, Inc. de Cebu	1	350,000	-	-	-	-	1	350,000
Eagle Ridge	2	937,000	-	-	-	-	1	937,000
Golfers Club	1	95,000	-	-	-	95,000	-	-
Iloilo Golf & Co. Club	1	140,000	-	-	-	-	1	140,000
Leyte Golf & Co. Club	1	237,000	-	-	-	-	1	237,000
Makati Sports Club	2	1,528,800	-	-	-	28,400	2	1,500,400
Manila Golf Club	2	49,000	-	-	-	-	2	49,000
Manila Polo Club	5	21,055,030	-	425,000	-	3,080,030	4	18,400,030
Manila Southwoods Golf and Co. Club	3	3,500,000	-	-	-	-	3	3,500,000
Mimosa Golf & Co. Club	1	1,570,000	-	-	-	-	1	1,570,000
Orchard Golf & Co. Club	2	1,760,000	-	-	-	-	2	1,760,000
Palm Club Share	1	1,687,500	-	-	-	9	1	1,687,500
Philippine Columbian	1	21,000	-	-	-	21,000	-	-
Pueblo de Oro Golf & Club	1	705,380	-	-	-	-	1	705,380
Quezon City Sports Club	1	200,000	-	-	-	-	1	200,000
Riviera Golf Club	1	371,000	-	-	-	-	1	371,000
Tagaytay Highlands Int'l Golf Club, Inc	2	31,523,920	-	-	-	-	2	31,523,920
The Palm Co. Club	-	-	-	1,151,250	-	-	1	1,151,250
Towers Club	1	500,000	-	-	-	-	1	500,000
Valle Verde Golf & Co. Club	1	175,000	-	-	-	-	1	175,000
Valley Golf Club	1	17,000	-	-	-	-	1	17,000
Victoria Golf & Co. Club	1	110,000	-	-	-	-	1	110,000
		<u>71,357,170</u>		<u>1,576,251</u>		<u>3,224,430</u>		<u>69,708,985</u>
Other Investment								
Long-Term Receivables-TAR		13,293,106	-	-	-	-		13,293,106
Joint Venture Interest in Pandacan Depot Services Inc.		-	-	4,052,227	-	-		4,052,227
		<u>13,293,106</u>		<u>4,052,227</u>				<u>17,345,333</u>
Treasury Bills								
Hongkong and Shanghai Banking Corporation		151,310,738	-	-	-	134,235,472		17,075,266
Chinatrust (Philippines) Commercial Bank Corporation		20,053,024	-	50,209,042	-	-		70,262,066
Metropolitan Bank and Trust Company		53,000,000	-	-	-	-		53,000,000
Philippine Long Distance Telephone		4,000	-	-	-	4,000		-
Development Bank of the Philippines		49,521,919	-	25,000,000	-	-		74,521,919
Land Bank of the Philippines		-	-	20,000,000	-	-		20,000,000
Philippine National Bank		-	-	95,000,000	-	-		95,000,000
		<u>273,889,681</u>		<u>190,209,042</u>		<u>134,239,472</u>		<u>329,859,251</u>
TOTAL		₱ 358,539,960	₱ -	₱ 195,837,520	₱ -	₱ 137,463,911		₱ 416,913,569

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE G - INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2004

Description	Beginning Balance	Additions at Cost	Charged to Cost and Expenses	Charged to Other accounts	Other Changes Additions (Deductions)	Ending balance
Goodwill						
Cost	P 80,591,846	P -	P -	P -	P -	P 80,591,846
Less amortization for the year	-	-	4,029,592	-	-	4,029,592
Net book value	<u>80,591,846</u>	<u>-</u>	<u>4,029,592</u>	<u>-</u>	<u>-</u>	<u>76,562,254</u>
Negative Goodwill	<u>(72,226,575)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(72,226,575)</u>
						-
Franchise Fee						
Cost	-	2,116,140	-	-	-	2,116,140
Less amortization for the year	-	-	189,518	-	-	189,518
Net book value	<u>-</u>	<u>2,116,140</u>	<u>189,518</u>	<u>-</u>	<u>-</u>	<u>1,926,622</u>
BALANCE	<u>P 8,365,271</u>	<u>P 2,116,140</u>	<u>P 4,219,110</u>	<u>P -</u>	<u>P -</u>	<u>P 6,262,301</u>

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE H - LONG TERM DEBT
DECEMBER 31, 2004

Name of Issuer and Type of Obligation	Amount Authorized by Indenture	Amount Shown as Current	Amount Shown as Long-term
Land Bank of the Philippines	P 1,750,000,000	P 1,000,000,000	P 750,000,000
Citibank NA	1,538,461,538	615,384,615	923,076,923
Nordeutsche Landesbank Girozentrale (net of debt issue costs amounting to P100,292,716)	5,533,807,284	-	5,533,807,284
TOTAL	P 8,822,268,822	P 1,615,384,615	P 7,206,884,207

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE K - CAPITAL STOCK
DECEMBER 31, 2004

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
Common Stock	10,000,000,000	9,375,000,000		7,500,000,000		1,875,000,000