

## 2004 Annual Report

### Joint Statement of the Chairman and the President

Dear Fellow Stockholders :

In our first report to you in August 2004, as the new company PetroEnergy, we described the initial successes of your Company in its overseas exploration venture in Gabon, West Africa. Today, we are glad to say that we have maintained that positive momentum by building up our reserves and expanding our production facilities.

We increased our investments for the expansion of our operations, but still kept a healthy surplus in our earnings.

#### Expansion of Production Facilities

We continued to add new production wells in the Etame Field and have begun the development of our second field, the Avouma-South Tchibala.

In the Etame Oil Field, a fourth production well, ET-5H, was put on stream in August 2004, which raised daily production to over 19,000 barrels. The fifth and final production well, ET-6H, is currently being drilled. ET-6H will contribute about 6,000 barrels per day to bring the Etame Field's total production to 25,000 barrels.

In anticipation of the natural decline in output of the various wells in the Etame Field, a gas lift system is currently being set up at a cost of \$3.3 million. Retrofitting the Floating Production Storage and Offloading (FPSO) facilities is almost complete, while the gas lift equipment for the production wells ET-5H and ET-6H, had begun to arrive in Gabon in time for laying out when the well ET-6H is completed by August this year. It is estimated that the gas lift system will increase the Etame recoverable reserves by 19 million barrels.

The second field, the Avouma, will be developed together with South Tchibala discovery through a satellite well platform that is tied back to the FPSO in the Etame Field, some 17 kilometers away. This development will feature the use of un-manned 4-legged production platform, unlike the earlier development scheme in the Etame Field, which were completed with subsea trees. Thirteen million barrels of oil are expected to be recovered from the new field.

In another front, the engineering plans for the development of our other discovery, the Ebouri Oil Field, are also being finalized. Ebouri will be tied back to the Etame Field 9 kilometers away and is expected to contribute 11 million barrels of oil to total production.

## Increase in Producible Reserves

All in all, our oil reserves have greatly improved by the capital investments. Our recoverable reserves have gone up from 39 million barrels in year 2003 to 111 million barrels at present. These reserves are broken down as : 58 million barrels proved developed reserves in the Etame Field, and 53 million barrels of proved undeveloped reserves in Avouma, Ebouri, North Tchibala and South Tchibala discoveries.

## Exploration Gabon

We are also looking at three new prospects in the northern part of our contract area near Ebouri. A new 3D seismic survey over the area was completed late in 2004 and processing of the data is currently ongoing.

In May this year, we drilled the South Avouma prospect near the south edge of our contact, but it was found dry.

## Gabon Production in Year 2004

The year-long picture of activities is clear in Gabon. The Etame total production during 2004 went up to 6.3 million barrels from 5.2 million barrels in the previous year. Crude sales, which averaged \$37.68 per barrel, also went up from 5.3 million barrels in 2003 to 5.9 million barrels in 2004. Of these, your Company's share yielded 203 million pesos, up by 19.5% from 169.8 million pesos in the year before.

## Exploration Philippines

Exploration in our contract areas in the Philippines began to take a definitive direction at the beginning of this year after the Supreme Court affirmed the constitutionality of the Mining Act of 1995. It may be recalled that last year, almost all exploration efforts were put on hold when the legality of petroleum service contracts were put into doubt when they were classed with the, then, questioned FTAs.

The East Visayan consortium has applied for a service contract covering onshore Leyte and east offshore Cebu. At the same time, the consortium executed a Memorandum of Agreement which provides for the farm-out of 80% of its interest to an Australian company as soon as the service contract is granted by the Department of Energy. In return, the farminee will carry the Filipino consortium for a seismic survey and drilling of an option well.

The Galoc consortium in Service Contract 14-C in Palawan had signed in September 2004, a farm-out agreement with a European consortium of Vitol, Cape Energy and Team

Oil to develop the Galoc discovery. The local companies are carried-free to production in the \$42 million to \$150 million project in exchange for 75% of the interest.

#### Conclusion

Our operations in Gabon have been consistently aggressive in pursuing technical opportunities. We have been prudent, as well, in planning investments for new facilities that will spell out our commercial direction in the next 15 years or more.

In the Philippines, exploration has come out of the doldrums. Our consortium in Service Contract 14-C has succeeded in signing an 80-for-100 farm-in agreement with a European consortium to develop the Galoc Field. A Filipino group has also proposed to rehabilitate the West Linapacan Field under similar terms as the Galoc project.

So far, the oil markets have held the high prices of crude and we do not see them turning down significantly in the near term. Yet even assuming that these prices settle to the \$30 in the long term, we still see a very comfortable rate of profitability because most of our large investments will be completed by early 2006 and our enhanced volume of production would come to the market on time to ride on the high prices. Justifiably, we look forward to a healthy cash flow soon after that.

In the light of these expectations, we want to assure you, fellow stockholders, that your Management will find all means possible to bring to you, each time, the most gainful returns on your investment.

Thank you.

DELFIN L. LAZARO  
Chairman

MILAGROS V. REYES  
President