

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended June 30, 2004
2. Commission identification number 31171 3. BIR Tax Identification No. 320-000-168-801
4. Exact name of registrant as specified in its charter PETRON CORPORATION
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address of registrant's principal office Postal Code
Petron MegaPlaza, 358 Sen. Gil Puyat Ave., Makati City 1200
8. Registrant's telephone number, including area code
(0632) 886-3888
9. Former name, former address and former fiscal year, if changed since last report
N/A
10. Securities registered pursuant to 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>

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

Yes No

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange

Common Stock

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 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

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PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Three-Month Period Ended June 30, 2004 and 2003 and
For the Six-Month Period Ended June 30, 2004 and 2003
(Amounts in Millions of Pesos, Except Per Share Amounts)

	<u>April to June</u>		<u>January to June</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
SALES	33,603	26,855	66,142	55,322
COST OF GOODS SOLD	<u>31,460</u>	<u>24,715</u>	<u>61,198</u>	<u>51,091</u>
GROSS PROFIT	2,143	2,140	4,944	4,231
OPERATING EXPENSES	<u>913</u>	<u>759</u>	<u>2,202</u>	<u>1,816</u>
INCOME FROM OPERATIONS	1,230	1,381	2,742	2,415
OTHER CHARGES	<u>(469)</u>	<u>(263)</u>	<u>(923)</u>	<u>(667)</u>
INCOME BEFORE INCOME TAX	761	1,118	1,819	1,748
PROVISION FOR INCOME TAX	<u>189</u>	<u>282</u>	<u>461</u>	<u>467</u>
NET INCOME	<u>572</u>	<u>836</u>	<u>1,358</u>	<u>1,281</u>
Basic Earnings Per Share (Note 3)	<u>0.06</u>	<u>0.09</u>	<u>0.14</u>	<u>0.14</u>
Diluted Earnings Per Share	NOT APPLICABLE		NOT APPLICABLE	

Certified by:


Ma. CONCEPCION F. DE CLARO
Assistant Manager-Controllers Department



PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Millions of Pesos)

	Unaudited	Audited
	As at	
	6/30/2004	12/31/2003
ASSETS		
Current Assets		
Cash and cash equivalents	6,767	2,803
Short-term investments	71	69
Receivables - net	11,101	9,402
Inventories - net	21,981	15,674
Other current assets	2,303	1,435
Total Current Assets	42,223	29,383
Property, Plant and Equipment	22,732	21,497
Investments	973	857
Other Assets	243	80
TOTAL ASSETS	66,171	51,817
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term loans	18,368	15,386
Liabilities for crude oil and petroleum product importation	12,847	6,560
Accounts payable and accrued expenses	6,315	3,355
Current portion of long-term debt	1,365	712
Total Current Liabilities	38,895	26,013
Non-current Liabilities and Deferred Credits	7,716	5,732
Total Liabilities	46,611	31,745
Capital Stock		
Authorized-10,000,000,000 shares		
Par value-P1 per share		
Issued and outstanding	9,375	9,375
Retained Earnings		
Appropriated	5,551	5,551
Unappropriated	4,510	5,027
Accumulated Translation Adjustment	124	119
Total Stockholders' Equity	19,560	20,072
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	66,171	51,817

Certified by:


Ma. CONCEPCION F. DE CLARO
Manager-Controllers Department



Unaudited

PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
For the Six-Month Period Ended June 30, 2004 and 2003
(Amounts in Millions of Pesos)

	<u>January to June</u>	
	<u>2004</u>	<u>2003</u>
COMMON STOCK	9,375	9,375
APPROPRIATED RETAINED EARNINGS		
Balance at beginning of year	5,551	5,551
Appropriated for capital projects	-	-
<u>Balance at end of period</u>	<u>5,551</u>	<u>5,551</u>
UNAPPROPRIATED RETAINED EARNINGS		
Balance at beginning of year	5,027	3,794
Net income	1,358	1281
Cash dividends declared	(1,875)	(1,875)
Appropriated for capital projects	-	-
<u>Balance at end of period</u>	<u>4,510</u>	<u>3,200</u>
ACCUMULATED TRANSLATION ADJUSTMENT		
Balance at beginning of year	119	101
Foreign currency translation adjustments	5	2
<u>Balance at end of period</u>	<u>124</u>	<u>103</u>
TOTAL STOCKHOLDERS' EQUITY	<u>19,560</u>	<u>18,229</u>

Certified by:


Ma. CONCEPCION F. DE CLARO
Manager-Controllers Department



UNAUDITED

PETRON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six-Month Period Ended June 30, 2004 and 2003
(Amounts in Millions of Pesos)

	<u>January to June</u>	
	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	1,819	1,748
Adjustments for:		
Depreciation and amortization	1,019	1,049
Interest expense	726	810
Interest income	(81)	(129)
Cylinder deposits written-on	-	(224)
Unrealized foreign exchange (gain) loss	128	42
Reversal of allowance for market decline	(2)	(7)
Operating income before working capital changes	3,609	3,289
Changes in operating assets and liabilities	(1,564)	(791)
Interest paid	(708)	(897)
Interest received	81	138
Income tax paid	(40)	(38)
Net cash provided by (used in) operating activities	1,378	1,701
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, plant and equipment	(2,236)	(794)
Increase in:		
Receivables - others	(104)	(578)
Other assets	(204)	(36)
Reductions from (additions to):		
Long-term investments	(129)	(250)
Net cash used in investing activities	(2,673)	(1,658)
Availment of loans	28,693	9,987
Payment of loans	(23,099)	(10,573)
Payment of cash dividends	(330)	-
Cylinder deposits	24	96
Minority Interest	2	7
Net cash used in financing activities	5,290	(483)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(31)	(32)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,964	(471)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,803	5,419
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6,767	4,948

Certified by:


Ma. CONCEPCION F. DE CLARO
Manager-Controllers Department

PETRON CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

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

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

The registered office address of Petron and its Philippine-based subsidiaries is Petron MegaPlaza, 358 Sen. Gil Puyat Avenue, Makati City, Philippines. The number of employees in Petron is 1,218 as of June 30, 2004 and 1,212 as of December 31, 2003.

The consolidated financial statements were approved for issuance by the Board of Directors on July 26, 2004.

2. Accounting policies

The accompanying consolidated interim financial statements have been prepared in accordance with the accounting principles generally accepted in the Philippines under the historical cost convention except for the adoption of SFAS 12/ IAS 12, Income Taxes and SFAS 12/ IAS 17, Leases.

The same accounting policies and methods of computation as mentioned in the audited financial statements for the year 2003 were followed in the preparation of these interim financial statements.

The Company is in the process of determining the effect of the adoption of SFAS 12/ IAS 12.

- 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. It also provides for the recognition of a deferred tax liability with respect to asset revaluations.
- SFAS 17/IAS 17, "Leases," prescribes the accounting policies and disclosures to apply to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee.

3. Basic earnings per share

Earnings per share for the six-month period ended June 30, 2004 amounted to ₱ 0.14, similar with the same period last year. Net income of ₱ 1,358 million for the interim period was divided by the weighted average number of shares outstanding of 9,375,000,000 as of the close of the second quarter of 2004.

4. Fuel Supply Contract

The Company entered into a fuel supply contract with NPC commencing on July 1, 2002 until December 31, 2003. Under the agreement, the Company supplies the bunker fuel and diesel fuel oil requirements to selected NPC plants. For power plants whose contracted quantities have not been fully lifted before December 31, 2003, the Company's contract with NPC allows for continued lifting of fuel until the contracted quantities are lifted, provided the extension does not exceed six months.

NPC bid out additional bunker fuel requirements for selected power plants last November 12 and 18, 2003. The fuels for these plants are projected to be consumed by April 30, 2004. The Company won a total of 152,454 KL of bunker fuel worth ₱ 1,753 million.

In the bidding held last March 18 to 23, 2004 for CY2004, the Company won a total of 39,922 KL of diesel fuel and 555,919 KL of bunker fuel worth ₱ 671 million and ₱ 6,039 million, respectively. The 2004 fuel supply contract has been in force since May 1, 2004 and will be valid until December 31, 2004.

5. Explanatory comments about the seasonality or cyclicity of interim operations

Seasonality or cyclicity of interim operations is not applicable to the Registrant's type of business because the demand for petroleum products remains fairly stable throughout the year.

6. The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence

There are no assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

7. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period

There are no changes in estimates of amounts in the second quarter of 2004.

8. Issuances, repurchases, and repayments of debt and equity securities

There are no issuances, repurchases, and repayments of debt and equity securities during the second quarter of 2004.

9. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting. (This shall be provided only if the issuer is required to disclose segment information in its annual financial statements)

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

	Retail	Lube	Gasul	Industrial	Others	Total
<u>Property, plant and equipment</u>						
As of June 30, 2004	₱4,950	₱13	₱205	₱81	₱15,381	₱20,631
As of December 31, 2003	4,046	12	38	62	15,217	19,375
<u>Revenue</u>						
Period ended June 30, 2004	₱29,296	₱534	₱3,545	₱25,761	₱7,006	₱66,142
Period ended June 30, 2003	23,480	434	3,250	18,862	9,296	55,322

The following tables present revenue information regarding the geographical segments of the Company for the six-month period ended June 30, 2004 and 2003:

	Petroleum	Insurance	Leasing	Retail	Elimination / Others	Total
<u>Period ended June 30, 2004</u>						
Revenue						
Local	₱62,047	₱219	₱106	₱71	(₱422)	₱62,021
Export/International	4,095	26	–	–	–	4,121
<u>Period ended June 30, 2003</u>						
Revenue						
Local	₱48,510	₱229	₱108	–	(₱361)	₱48,486
Export/International	6,812	24	–	–	–	6,836

10. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations

There are no changes in the composition of the registrant during the interim period.

11. Changes in contingent liabilities or contingent assets since the last annual balance sheet date

Petron has unused letters of credit totaling approximately ₱ 1 million as of June 30, 2004 versus ₱ 4 million as of December 31, 2003.

12. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period**Update on Pandacan Scale-Down Project**

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 MoU signed between the three oil companies, the DOE and the City of Manila, 26 have been decommissioned/ dismantled. The dismantling of the remaining two tanks is contingent upon the full integration of the Pandacan operations.

To date, the first phase of the engineering, procurement and construction is already more than 50% complete.

The JV (Pandacan Depot Services Inc.) take over of the operations of the “scaled-down” facility has been moved to September 2004.

Navotas Business Tax

On the status of 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 TRO issued by the Supreme Court is still in effect and will prevent the closure of the Bulk Plant until the case is decided by the Supreme Court.

TCC-Related Matters

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 million representing back taxes, surcharge and interest arising from the Company's acceptance and use of Tax Credit Certificates (TCCs) worth ₱659 million 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 CA where the case is still pending.

In November 1999, the Department of Finance (DOF) Center ExCom cancelled Tax Debit Memos (TDMs) worth ₱475 million, the related TCCs and their assignments. The BIR implemented this with a letter of assessment worth ₱651 million 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 million 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 after the Sandiganbayan reversed an earlier ruling dismissing the case for failure on the part of the Ombudsman to prosecute.

13. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period

There are no material events subsequent to the end of the interim period that would require disclosure.



Petron Corporation
Receivables
June 30, 2004
(Amounts in Millions of Pesos)

Breakdown:

Accounts Receivable - Trade	8,852
Accounts Receivable - Non-Trade	2,249
Total Accounts Receivable	<u><u>11,101</u></u>

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1-30 days	6,133
	31-60 days	1,862
	61-90 days	773
	Over 90 days	<u>604</u>
Total		9,372
Allowance for doubtful accounts		<u>520</u>
Accounts Receivable - Trade		<u><u>8,852</u></u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating Revenues and Expenses

Petron's aggregate sales volume for the first half of the year stood at **25.8 million barrels**, up by **590 thousand barrels** or an improvement of 2% compared with the 25.2 million barrels sold during the same period last year. Combined domestic and supply sales rose by 3.0 million barrels, but this was greatly affected by the 2.4 million contraction in exports.

Gross sales for the six-month period reached **₱ 66.1 billion**, surpassing year ago level by 20% or ₱ 10.8 billion, brought about by the improvement in sales mix of white to black products as the company sold more white products, complemented by the growth in sales volume.

Cost of sales for the period of ₱ 61.2 billion, likewise increased by 20% or ₱ 10.1 billion from the previous year's ₱ 51.1 billion. This was triggered mainly by higher average FOB/CIF of crude/finished product importations aggravated by the weakening of the peso as against the US dollar.

Gross profit settled at **₱ 4.9 billion**, 17% or ₱ 713 million better than the first half of 2003. However, **gross margin** was slightly lower at **7.5%**, than the 7.6% a year ago.

Operating expenses rose to **₱ 2.2 billion** from the previous year's ₱ 1.8 billion influenced mainly by more aggressive promotional and advertising campaign, increased employee costs as well as the escalation in LPG cylinder purchases.

Net non-operating charges increased to **₱ 923 million**, up by ₱ 256 million vis-à-vis last year's ₱ 667 million traceable mainly to the LPG cylinder deposits written-on to income. In addition, the company incurred processing charges, facilitation fees and documentary stamp tax relative to the \$50 million drawdown from Norddeutsche Landesbank Girozentrale (NORD).

Petron ended the first half of 2004 with net earnings of **₱ 1.36 billion**, a 6% improvement over the ₱ 1.28 billion posted during the same period last year.

Capital Resources and Liquidity

Cash and cash equivalents rose to **₱ 6.8 billion**, ₱ 4.0 billion higher than year-end level of ₱ 2.8 billion. The \$50 million drawdown from the new NORD loan as well as month-end collections from the National Power Corporation (NPC) and Philippine Airlines (PAL) accounted mainly for the sharp increase in cash.

The growth in **receivables-net** by ₱ 1.7 billion was a result of higher sales to NPC, government accounts and civil trade.

Build-up in crude inventory in anticipation of higher programmed production run to meet sales volume target accounted mainly for the hike in **inventories** by ₱ 6.3 billion.

The ₱ 868 million increase in **other current assets** pertained essentially to prepaid insurance and rental charges.

The recorded increment of ₱ 1.2 billion in **property, plant and equipment** referred to capital expenditures for the construction of Gasoil Hydrotreater Plant and Isomerization Unit to produce “clean-air act” compliant fuels as well as Offsite Automation/ Energy Efficiency Projects.

In preparation for maturing obligations, **short-term loans** acquired mainly to finance crude and product importations increased by ₱ 3.0 billion from the December 2003 index.

Liabilities for crude oil and petroleum product importation climbed to ₱ 12.8 billion from the December 2003 level of ₱ 6.6 billion on account primarily of incremental fuel product importation cost as well as the material escalation in crude volume.

Outstanding dividends payout accounted primarily for the ₱ 3.0 billion uptrend in **accounts payable and accrued expenses**.

Increase in **current portion of long term debt** of ₱ 653 million pertained to loans from Landbank and Citibank which will be due for payment in a year's time.

Growth in **non-current liabilities and deferred credits** of ₱ 2.0 billion was attributable largely to the first drawdown of the new dollar denominated loan obtained from NORD.

The decrease in **unappropriated retained earnings** pertained to the dividend declaration of ₱ 1.9 billion partly offset by the ₱ 1.4 billion consolidated earnings for the first half of 2004.

Cash Flow

Cash provided by operating activities for the first half of 2004 amounted to ₱ 1.4 billion, lower than the registered operating cash inflow of ₱ 1.7 billion a year ago influenced by the build-up in operating assets. Net cash used in investing activities was spent primarily in property, plant and equipment acquisitions while net cash provided by financing activities was sourced largely from short-term loans as well as the proceeds from the NORD loan.

Discussion of the company's and its majority owned subsidiaries' top five (5) key performance indicators

Ratio	June-04	Dec-03
Current Ratio	1.09	1.13
Debt Equity Ratio	2.30	1.52
Return on Equity (%)	13.70	16.00
Debt Service Coverage	4.04	3.51
Tangible Net worth	₱ 19,560	₱ 20,072

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.

Known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity

Heightened Volatility in Peso-Dollar Exchange Rate Largely Due to Political Concerns

The peso-dollar rate averaged P55.95 in the first half, 4.5% higher than the P53.50 average in the same period last year. The peso breached P56 in late January largely due to political concerns. It plunged to a low of P56.43 last March 22 owing to pronounced jitters over the May elections. Among the factors that affected the peso were: negative market sentiment arising from destabilization attempts on the Administration, and persistent concerns on global terrorism particularly after the train bombing incident in Madrid.

The peso's weakness was slightly offset by the inflow of overseas remittances in the second quarter which usually flow in before the school opening. Additionally, a recovery in the country's export receipts partially cushioned the peso's weakness.

While the peso slightly recovered after election uncertainties have receded, it continues to hover close to P56 as market sentiment remains cautious largely due to concerns over the country's fiscal deficit and high foreign debt.

91-day Treasury Bill and Inflation Rates Edged Up

With the market demanding a higher political risk premium, the 91-day T-bill rate moved up to an average of 7.0% in the first half, higher than the 6.1% average in the comparative period last year. The rate reached a high of 7.7% in mid-April in the run up to the May elections.

Inflation averaged 4.1% for the first six months (1994 as base year), higher than the 2.9% average in the same period last year. Aside from election spending, higher food prices (due to factors like the outbreak of the avian flu virus in Asia), and higher transport charges contributed to higher inflation.

Cost-side factors such as continued volatility in crude oil prices and the peso-dollar exchange rate, transport fare hike, proposed increases in utility charges and wages are expected to put pressure on prices for the rest of the year.

Oil Prices Trend Upward

Crude prices rose to 13-year highs due to various factors, namely, tensions in Iraq and Saudi Arabia, the gasoline crisis in US, and stronger global oil demand with economic recovery.

The price of Dubai averaged \$31.44 in the first half of 2004, versus \$26.40 in the comparative period last year. Dubai reached a 13-year high of \$36.22 in mid-May.

Growing Industry Competition

The closure of Caltex' refinery in the latter part of 2003 and its conversion to a product import terminal attests to increasing pressure in the industry. The closure of Caltex' refinery puts further pressure on the efficiencies of asset-heavy refiners like Petron. It is also seen to drive local prices towards import parity.

Material commitments for capital expenditures

The Board of Directors approved last May 19, 2004 a capital expenditure budget of ₱85 million for software that will optimize vessel scheduling and that will enhance inventory management.

Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations

Clean Air Act

In compliance with the fuel standards of the Act, Petron embarked on the following major capital investments: Gasoil Hydrotreater Plant and Isomerization Plant. These facilities will enable Petron to produce the compliant fuels.

Clean Water Act

The recently approved Clean Water Act enforces regulations on various pollutants on water bodies or along margins of any surface water. Compliance with effluent limits may require the installation of wastewater treatment facilities in terminals and service stations.

Activism of Local Government Units

The activism of local government units, similar to the move to close down the oil terminals in Pandacan, may set a precedent for local governments and/or residents in other bulk plant locations.

Government's Thrust Toward Alternative Fuels

- **Natural Gas.** In addition to power sector, Government is promoting the use of natural gas as a transport fuel.

Government has issued Executive Order 290 implementing a Natural Gas program for public transport. Under the program, incentives have been lined up for users and investors such as tax holidays (for qualified projects under the BOI's IPP), preferential and exclusive franchises on newly opened routes, and lower imports duties on natgas-fed vehicles. Government is also looking into other incentives to make the price of compressed natural gas (CNG) competitive relative to diesel.

The DOE has been coordinating with various developers for the phased development of the refueling infrastructure to begin in Batangas, the site of the pilot commercialization of CNG-fed buses. The pilot refueling station is expected to be operational in 2004.

Within the next four years, the expected construction of the 80-100 km natural gas pipeline from Batangas to Manila shall feed additional refueling stations with CNG.

Aside from transport, natural gas is being promoted for industrial sectors e.g., use of natgas for airconditioning and heat process requirements. Targeted sectors are the clustered industries along the programmed Batangas-Manila-Bataan natural gas transmission pipeline.

These plans on the expanded use of natural gas will partially displace oil demand.

- **Coco-Methyl Ester (CME) as additive to diesel.** Another alternative additive to diesel being pushed is Coco Methyl Ester or CME. Government has issued a directive to all public agencies to use 1% CME in their diesel-fed vehicles.

The DOE has also set new specifications and standards for two stroke (2T) lubricating oil to allow the use of coconut-derived basestocks or CME. To make CME viable, government is also looking into possible tax incentives for manufacturers and users.

Public's Perception on Fuel Pricing

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

Significant elements of income or loss that did not arise from the issuer's continuing operations

There are no elements of income or loss that did not arise from the Registrant's continuing operations.

Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation

Navotas Business Tax

On the status of 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 TRO issued by the Supreme Court is still in effect and will prevent the closure of the Bulk Plant until the case is decided by the Supreme Court.

TCC-Related Matters

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 million representing back taxes, surcharge and interest arising from the Company's acceptance and use of Tax Credit Certificates (TCCs) worth ₱659 million 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 CA where the case is still pending.

In November 1999, the Department of Finance (DOF) Center ExCom cancelled Tax Debit Memos (TDMs) worth ₱475 million, the related TCCs and their assignments. The BIR implemented this with a letter of assessment worth ₱651 million 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 million 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 after the Sandiganbayan reversed an earlier ruling dismissing the case for failure on the part of the Ombudsman to prosecute.

All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or persons created during the reporting period.

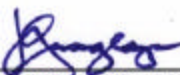
There are no off-balance sheet transactions, arrangements and obligations with unconsolidated entities or persons during the reporting period.

Part II – OTHER INFORMATION

Pursuant to the requirements of the Revised Securities Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant PETRON CORPORATION

Signature and Title:



LUIS A. MAGLAYA
Corporate Secretary

Date: August 13, 2004

Principal Financial/Accounting Officer/Controller

Signature and Title:



ANTONIO G. PELAYO
VP Finance & Subsidiaries

Date: August 13, 2004