



30 January 2014

**Ms. Janet A. Encarnacion**  
Head, Disclosure Department  
Philippine Stock Exchange  
4/F PSE Plaza  
Ayala Triangle Plaza  
Ayala Ave., Makati City  
Metro Manila

Dear *Ms. Encarnacion*:

Attached is the Preliminary Information Statement (SEC Form 20-IS) which we filed today with the Securities and Exchange Commission (the Commission) in compliance with our recently announced Annual Stockholders' Meeting on 07 March 2014 at 2:00 o'clock in the afternoon at the Marco Polo Davao.

This disclosure is made in compliance with the Securities Regulations Code and the Revised Disclosure Rules.

Thank you and warm regards.

Very truly yours,

**Atty. Socorro Ermac Cabreros**  
Corporate Secretary



## NOTICE AND AGENDA

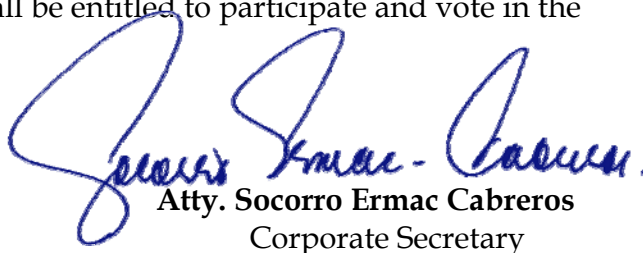
The Annual Stockholders' Meeting of P-H-O-E-N-I-X Petroleum Philippines, Inc. will be held on the following date and place:

**Friday, March 07, 2014, 2:00 PM**  
**Marco Polo Hotel**  
**Davao City**

The agenda for the Meeting shall be, as follows:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held last March 08, 2013
4. Report of the President and Chief Executive Officer
5. Approval of the 2013 Audited Financial Statements and 2013 Annual Report
6. Ratification and Confirmation of all Acts and Resolutions of the Board and Management executed in the normal course of business covering the period of 01 Feb 2013 until 31 January 2014
7. Election of the Members of the Board of Directors
8. Appointment of External Auditor
9. Other Matters
10. Adjournment

All stockholders as of **13 February 2014** shall be entitled to participate and vote in the said annual meeting.

  
**Atty. Socorro Ermac Cabreros**  
Corporate Secretary

**SECURITIES AND EXCHANGE COMMISSION**  
**SEC FORM 20-IS**  
**INFORMATION STATEMENT PURSUANT TO SECTION 20**  
**OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

☐ Preliminary Information Statement

☐ Definitive Information Statement

2. Name of Company as specified in its charter: **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**

3. Country of Incorporation: **Philippines**

4. SEC Identification Number: **A200207283**

5. BIR Tax Identification Code: **006-036-274**

6. Address of principal office: **Stella Hizon Reyes Road, Bo. Pampanga Lanang, Davao City 8000**

7. Company's telephone number, including area code: **(082) 235-8888**

8. Date, time and place of the meeting of security holders:

**March 7, 2014, 2:00 p.m.**  
**Marco Polo Hotel**  
**Davao City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **February 14, 2014**

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

<u>Title of Each Class</u>	<u>Number of Shares</u>
Common Shares, Php1.00 par value	1,428,777,232
Preferred Shares, Php 1.00 par value	<u>10,000,000</u>

11. Are any or all of Company's securities listed on a Stock Exchange?

Yes   X   No           

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Philippine Stock Exchange, 1,428,777,232 Common Shares

## **PART I.**

### **INFORMATION REQUIRED IN INFORMATION STATEMENT**

#### **A. GENERAL INFORMATION**

##### **Item 1. Date, time and place of meeting of security holders**

- (a)     Date                :     **March 7, 2014**  
         Time                :     **2:00 p.m.**  
         Place               :     **Marco Polo Hotel**  
                                     **Davao City**

Mailing                    **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**  
Address:                  **Office of the Corporate Secretary**  
                                 **Stella Hizon Reyes Road, Bo. Pampang**  
                                 **Lanang, Davao City 8000**

- (b)     Approximate date on which the Information Statement is first to be sent or given to security holders: **February 14, 2014**

##### **Item 2. Dissenter's Right of Appraisal**

Pursuant to Section 81 of the Corporation Code of the Philippines, a stockholder has the right to dissent and demand payment of the fair value of his shares in case of any amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence, in case of lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code, and in case of merger or consolidation. Such appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action by making a written demand on the Company within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares. Failure to make the demand within such period shall be deemed a waiver of the appraisal right.

Within ten (10) days after demanding payment for his shares, a dissenting stockholder shall submit the certificate(s) of stock representing his shares to the Company for notation thereon that such shares are dissenting shares. His failure to do so shall, at the option of the Company, terminate his appraisal rights. No demand for payment as aforesaid may be withdrawn by the dissenting stockholder unless the Company consents thereto.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the Company cannot agree on the fair value of the shares, it shall be determined and appraised by three (3)

disinterested persons, one of whom shall be named by the stockholder, another by the Company and third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment: Provided, further, that upon payment by the Company of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the Company.

**THERE ARE NO MATTERS THAT WILL BE PRESENTED FOR SHAREHOLDERS' APPROVAL DURING THE ANNUAL MEETING THAT MAY OCCASION THE EXERCISE OF THE RIGHT OF APPRAISAL.**

**Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

- (a) No director or officer of the Company since the beginning of the last fiscal year, nominee for election as director of the Company, nor any of their associates, have any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon during the Annual Meeting, other than election to office.
- (b) No director of the Company has informed the Company in writing that he intends to oppose any action to be taken by the Company during the meeting.

**B. CONTROL AND COMPENSATION INFORMATION**

**Item 4. Voting Securities and Principal Holders Thereof**

- (a) Voting Securities

As of **31 January 2014**, the total number of shares outstanding and entitled to vote on all corporate matters to be acted upon are 1,428,777,232 common shares.

- (b) Record Date

The record date for purposes of determining the stockholders entitled to notice of and to vote at the Annual Meeting is **February 13, 2014**.

- (c) Voting Rights

In the matters to be voted upon in the Annual Meeting, stockholders of record as of **February 13, 2014** shall be entitled to one vote per share in person or by proxy. If he will vote thru a proxy, the By-Laws of the Company requires the submission of the accomplished proxy form to the Corporate Secretary for

validation and authentication at least ten (10) days before the date of the Annual Meeting.

The validation of proxies chaired by the Corporate Secretary or Assistant Corporate Secretary and attended by the Stock and Transfer Agent shall be convened at least five (5) days before the Annual Meeting. Any questions and issues relating to the validity and sufficiency, both as to form and substance, of proxies shall only be raised during said forum and resolved by the Corporate Secretary. The Corporate Secretary's decision shall be final and binding upon the shareholders, and those not settled at such forum shall be deemed waived and may no longer be raised during the Annual Meeting.

(d) Security Ownership of Certain Record and Beneficial Owners and Management as of **January 31, 2014**.

(1) Security Ownership of Certain Record and Beneficial Owners

As of **January 31, 2014**, the following are the owners of the Company's common stock in excess of five percent (5%) of the total outstanding shares:

Title of Class of Securities	Name/Address of Record Owners and Relationship with Phoenix	Name of Beneficial Owners/Relationship with Record Owner	Citizenship	No. of Shares Held	% of Ownership
Common	Phoenix Petroleum Holdings, Inc. Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City  Majority Shareholder	Record Owner is the direct beneficial owner	Filipino	588,945,630	41.22%
Common	Udenna Management & Resources Corp. Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City	Record Owner is the direct beneficial owner	Filipino	254,921,743	17.84%
Common	PCD Nominee Corporation (Filipino) 37/F Tower 1, The Enterprise Center, 6766 Ayala Ave. cor. Paseo de Roxas, Makati City  Shareholder	Record Owner is the indirect beneficial owner	Filipino	227,628,640	15.93%

Common	Udenna Corporation (Formerly Udenna Holdings Corporation) Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City	Record Owner is the direct beneficial owner	Filipino	127,568,767	8.93%
	Shareholder				

As of **January 31, 2014**, there are no beneficial owners under the PCD Nominee Corp. of the Company's common stock in excess of five percent (5%) of the total outstanding shares.

The persons voting for and in behalf of the following stockholders are as follows:

<b>Name of Stockholders</b>	<b>Representative</b>
1. Phoenix Petroleum Holdings, Inc.	Domingo T. Uy
2. Udenna Corporation	Cherylyn C. Uy
3. Udenna Management & Resources Corp.	Jose Manuel R. Quimson
4. PCD Nominees/ Trading Participants	<i>Ultimate Beneficial Owners representing the trading participants shall be made available after lapse of the Record Date and only after submission of their respective proxy forms for validation</i>

## (2) Security Ownership of Management

As of **January 31, 2014**, the security ownership of Management is as follows:

<b>Title of Class of Securities</b>	<b>Name/Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Citizenship</b>	<b>% of Ownership</b>
<b>Directors:</b>				
Common	Dennis A. Uy Stella Hizon Reyes Rd., Bo. Pampanga, Lanang, Davao City	3,991,802  direct beneficial owner	Filipino	0.28%
Common	Dennis A. Uy &/or Cherylyn C. Uy Stella Hizon Reyes Rd., Bo. Pampanga, Lanang,	1,098,060  direct beneficial owner	Filipino	0.08%

Davao City

Common	Domingo T. Uy Insular Village Phase II, Lanang, Davao City	645,919  direct beneficial owner	Filipino	0.05%
Common	Romeo B. De Guzman Hillsborough, Alabang Village, Muntinlupa City	326,382  direct beneficial owner	Filipino	0.02%
Common	Socorro T. Ermac Cabreros 223 V. Mapa St., Davao City	103,307  direct beneficial owner	Filipino	0.01%
Common	Jose Manuel R. Quimson 28 Osmeña St., Xavierville Subd., Loyola Heights, Katipunan, Quezon City	354,930  direct beneficial owner	Filipino	0.02%
Common	J.V. Emmanuel A. De Dios 95 A. Melchor St., Loyola Heights, Quezon City	659,320  direct beneficial owner	Filipino	0.04%
Common	Joseph John L. Ong 80 Pola Bay, Southbay Gardens, Paranaque City	332,182  direct beneficial owner	Filipino	0.03%
Common	Consuelo Ynares Santiago Santiago Cruz & Associates Law Office Unit 1702 East Tower PSE Center, Pasig City	1  direct beneficial owner	Filipino	0.00%
Common	Monico V. Jacob 7 <sup>th</sup> flr Philippine First Bldg, 6764 Ayala Ave., Makati City	1  direct beneficial owner	Filipino	0.00%
Common	Paul G. Dominguez Alson Development Corp. 329 Bonifacio St., Davao City	1  direct beneficial owner	Filipino	0.00 %

**Senior Management:**

Common	Chryss Alfonsus V. Damuy Ph2 Blk 07 Lot 07, Wellspring Highlands Subd. Catalunan Pequeno Davao City 8000	70,980  direct beneficial owner	Filipino	0.00%
Common	Ramon Edison C. Batacan 05 Sierra Madre St., Rolling Hills Subd., Bacaca, Davao City	70,980  direct beneficial owner	Filipino	0.00%
Common	Edgardo A. Alerta Fortune Executive Homes Lanang, Davao City	318,505  direct beneficial owner	Filipino	0.02%
Common	Rebecca Pilar C. Caterio Margarita Village, Bajada, Davao City	148,453  direct beneficial owner	Filipino	0.01%
Common	Gigi Q. Fuensalida 155 Brillantes St. 5th Avenue, Caloocan City	70,980  direct beneficial owner	Filipino	0.00%
Common	Reynaldo A. Phala Block 5 Lot 20 Pioneers Village	24,830  direct beneficial owner	Filipino	0.00%

The other executive officers of the Company, Alan Raymond T. Zorrilla –Vice President for External Affairs, Business Development and Security, Jose Victor L. Cruz – Asst. Vice President for Retail Sales-South Luzon, Edwin M. Jose- Asst. Vice President for Retail Sales-North Luzon, William M. Azarcon – Asst. Vice President, Operations & Logistics, Ma. Rita A. Ros – Asst. Vice President, Supply do not own shares in the Company.

The number of aggregate shares for all directors and executive officers is Eight Million Two Hundred Sixteen Thousand Six Hundred Thirty Three (8,216,633).

There are no persons holding more than five percent (5%) of a class under a voting trust or any similar agreements as of the date of this Report.

(e) Change in Control

The Company is not aware of any arrangements that may result in a change of control in the Company since the beginning of its fiscal year.

**Item 5. Directors and Executive Officers**

(a) The incumbent members of the Board of Directors and the executive officers of the Company are as follows:

Office	Name	Age	Citizenship
<b>Directors</b>			
Chairman	Domingo T. Uy	67	Filipino
Director/President and Chief Executive Officer	Dennis A. Uy	40	Filipino
Director	Jose Manuel R. Quimson	65	Filipino
Director/Chief Operating Officer	Romeo B. De Guzman	64	Filipino
Corporate Secretary/Asst. Vice President for Corporate Legal	Socorro T. Ermac Cabreros	48	Filipino
Director/Chief Finance Officer	Joseph John L. Ong	54	Filipino
Director	Cherylyn C. Uy	34	Filipino
Director	J.V. Emmanuel A. de Dios	49	Filipino
Director	Paul G. Dominguez		Filipino
Independent Director	Consuelo Ynares Santiago	73	Filipino
Independent Director	Monico V. Jacob	68	Filipino
<b>Other Executive Officers</b>			
Chief Compliance Officer and Chief Corporate Counsel	Ramon Edison C. Batacan	55	Filipino
Treasurer/Vice President for Finance	Chryss Alfonsus V. Damuy	40	Filipino
Vice President for Corporate Affairs, Business Development and Security	Alan Raymond T. Zorrilla	44	Filipino
Vice President for Sales Mindanao	Edgardo A. Alerta	58	Filipino
Assistant Vice President for Retail Sales South Luzon	Jose Victor L. Cruz	53	Filipino
Assistant Vice President for Retail Sales North Luzon	Edwin M. Jose	54	Filipino
Asst. Vice President for Retail Sales Mindanao	Jose Roel C. Cruz	46	Filipino
Assistant Vice President for Commercial Sales- Luzon	Joselito G. De Jesus	58	Filipino
Assistant Vice President for Supply	Ma. Rita A. Ros	54	Filipino
Assistant Vice-President for Engineering, Operations and Logistics	William M. Azarcon	67	Filipino
Asst. Vice President for Treasury	Reynaldo A. Phala	47	Filipino
Assistant Vice President for Credit and Collections	Rebecca Pilar C. Caterio	42	Filipino
Asst. Corporate Secretary	Gigi Q. Fuensalida	37	Filipino

## **Directors**

The members of the Board of Directors of the Company are elected during the annual stockholders' meeting to hold office until the next succeeding annual stockholders' meeting and until their successors have been appointed or elected and qualified. The following is the list of the incumbent members of the Board of Directors, and their business experiences during the past five (5) years:

### **Domingo T. Uy** **Chairman**

Mr. Domingo T. Uy, Filipino, 67 years old, is a co-founder and has been a member of the Board of Directors of the Company since 2002. Mr. Uy was elected Chairman of the Board of Directors of the Company on February 15, 2007. He is also a Director of Granland Resources Corporation, a corporation involved in real estate development. Mr. Uy is actively involved in socio-civic programs and is a Director of the Philippine National Red Cross, Davao Chapter. He is also the Past President of the Davao City Sta. Ana Lions Club and the Kang Ha Uy Association - Davao Chapter.

### **Dennis A. Uy** **Director, President and Chief Executive Officer**

Mr. Dennis A. Uy, Filipino, 40 years old, is the founder of the Company and has served as President and Chief Executive Officer since inception. He is the Chairman and President of Phoenix Petroleum Holdings, Inc., the holding company of the Company, and Udenna Corporation, the ultimate parent company. The subsidiaries of the Company are Chelsea Shipping Corp., Phoenix Petroterminals & Industrial Park Corp., Subic Petroleum Trading & Transport Philippines, Inc., PFL Petroleum Management, and Phoenix Global Mercantile, Inc. Among the subsidiaries of Udenna Corporation are Udenna Management & Resources Corp, One Subic Power, Global Synergy Trade and Distribution Corp., Udenna Development Corporation, Value Leases, Inc., Udenna Environmental Solutions, and Udenna Energy Corporation. Mr. Uy is also Chairman of F2 Logistics, Phoenix Philippines Foundation, and Udenna Foundation. He is a member of the Young Presidents Organization - Philippine chapter and the Philippine Business for Social Progress. Mr. Uy is the Honorary Consul of Kazakhstan to the Philippines since November 2011. He is a graduate of De La Salle University with a degree in Business Management.

### **Romeo B. De Guzman** **Director, Chief Operating Officer**

Romeo B. De Guzman, Filipino, 64 years old, was elected Director of the Company in 2009. He is Chief Operating Officer of the Company, bringing with him 35 years of outstanding experience in the oil industry. Before joining the Company, he was with Pilipinas Shell Petroleum Corporation, where he was Vice President for External Affairs for Asia Pacific and a member of the Board of Directors up to Dec. 2006. He was with the said company holding various management and executive positions. He also worked with Getty Oil Philippines Inc. for 10 years, prior to joining Pilipinas Shell. He carries with him a Marketing Management and an MBA degree from San Sebastian College – Manila.

**Jose Manuel R. Quimson**

**Director**

Jose Manuel R. Quimson, Filipino, 65 years old, has been a Director of the Company since February 15, 2007. He is concurrently the General Manager of Phoenix Petroterminals & Industrial Park Corp and the Chief Operating Officer of Chelsea Shipping Corp. Mr. Quimson is a member of the Board of Directors of the Udenna Corporation and its subsidiaries. Previously, he was President of Petrotrade Philippines, Inc. a company providing bunkering services to international vessels. Mr. Quimson has more than 30 years of work experience in the shipping industry.

**Socorro T. Ermac-Cabreros**

**Director, AVP for Corporate Legal and Corporate Secretary**

Socorro T. Ermac-Cabreros, Filipino, 48 years old, was elected Director and appointed Corporate Secretary on February 15, 2007. She is concurrently Asst. Vice President for Corporate Legal of the Company. She is also the Corporate Secretary and member of the Board of Directors of Udenna Corporation and its subsidiaries. Prior to joining the Company, she was a Legal Counsel of Philippine National Bank in Davao City. She has worked for the government such as Office of the Ombudsman for Mindanao and later as Prosecutor for the Province of Davao del Norte after engaging in the private practice of law. She finished her law degree at the Ateneo de Davao University College of Law. She is the immediate past President for the Davao City Chapter of the Integrated Bar of the Philippines.

**Atty. J.V. Emmanuel A. De Dios**

**Director**

J.V. Emmanuel A. De Dios, Filipino, 49 years old, was elected Independent Director of the Company on February 15, 2007 and regular director on March 7, 2008. He is the CEO of GE Philippines, and prior to that was President and CEO of Nido Petroleum Pty Ltd., an Australian Stock Exchange-listed oil and gas company. He was Managing Director of Merritt Advisory Partners, Inc. and was a member of the Board of Directors of Davies Energy Systems, Inc. He also served as Chairman of the Board of the Philippine National Oil

Company Exploration Corporation and was former Undersecretary of the Philippine Department of Energy. Atty. De Dios obtained his Master of Laws degree from Harvard Law School and completed his Bachelor of Laws at the Ateneo School of Law.

**Joseph John L. Ong**

**Director**

Joseph John L. Ong, Filipino, 54 years old, married, is the Chief Finance Officer of the Company. Prior to his employment in the Company, he spent almost ten (10) years at Primeworld Digital Systems, Inc. (Pacific Internet Phils.) initially as Vice President and CFO and eventually as Executive Vice President – Operations and Chief Finance Officer from 2008 - 2009. He also worked for twelve (12) years with Ginebra San Miguel, Inc. (then known as La Tondena Distillers, Inc.), then the country's 2<sup>nd</sup> largest beverage company and a listed subsidiary of San Miguel Corporation. He was its Vice President – Treasury from 1995 – 1999, at which time he headed the team that took the company public in 1994 and was primarily responsible for institutional-investor relations. Prior to the San Miguel Group, he held various positions at the Bank of the Philippine Islands & Ayala Investment & Development Corp. (before it merged with BPI) from 1980-1986. He received his Bachelor of Science in Commerce from De La Salle University in 1980.

**Paul Dominguez**

**Director**

Paul Dominguez was Presidential Assistant for Mindanao and Chairman of the Mindanao Economic Development Council (MEDCo) during the term of President Fidel V. Ramos, tasked to oversee efforts towards accelerating development in Southern Philippines. After serving in the Ramos administration, Mr. Dominguez became the Mindanao representative to the World Trade Organization - General Tariffs and ASEAN Free Trade Area (WTO-AFTA) Philippine Advisory Commission, Honorary Chairman of the Mindanao Business Council, and Country Director for the Philippines in the Board of Directors of the BIMP-East ASEAN Business Council. Mr. Dominguez was appointed by President Gloria Macapagal-Arroyo as Presidential Adviser for Regional Development in January 2001, and in April 2002 as Senior Consultant for Mindanao. He also served as the Special Envoy to Brunei Darussalam, Indonesia and Malaysia. Mr. Dominguez started his corporate career in 1971 with the Davao Light and Power Co. In 1974, he joined the Lapanday Agricultural Development Corp., a major agribusiness firm in Mindanao, as Assistant General Manager. He continued his involvement in agribusiness with the Sarangani Agricultural Company where he served as Executive Vice President from 1979 to 1985. From 1985 to 1992, he was President of C. Alcantara and Sons, Inc. a leading wood manufacturing company in Mindanao. Mr. Dominguez currently serves as director of several Philippine corporations. He previously served on the

Advisory Board for Southeast Asia of Colonial Insurance Co. and Commonwealth Bank of Australia.

**Cherylyn C. Uy**

**Director**

Ms. Cherylyn Chiong-Uy, 34 years old, is a graduate of Business and Finance from Ateneo de Davao University. Ms. Uy is one of the pioneers/incorporators of Udenna Corporation, a corporation composed of 17 subsidiaries which are divided into two (2) groups, the petroleum and non petroleum group. She is the Corporate Treasurer of Udenna Corporation. Ms. Uy is also one of the Executive Directors of Phoenix Philippines Foundation, Inc., the corporate social responsibility arm of the Company. She is the Corporate Treasurer of Udenna Management and Resources Corporation and Chelsea Shipping Corp.

**Consuelo Ynares-Santiago**

**Independent Director**

Consuelo Ynares-Santiago, Filipino, 73 years old, is a Retired Justice of the Philippine Supreme Court. Justice Santiago (Ret) is currently an independent director of Anchor Insurance Brokerage Corp., a leading insurance brokerage company based in New York, USA and SMC Global Power Holdings, Inc., one of the country's leading power company which is the power generation unit of the country's largest beverage, food and packaging industry, San Miguel Corporation. She is also a Consultant of various respectable government offices such as Office of Vice-President Jejomar C. Binay, Office of Senate President Juan Ponce-Enrile and Philippine Judicial Academy and a Chair Advisory Council of the Office of Alternative Dispute Resolution under the Department of Justice. She earned her Law Degree at the University of the Philippines. After admitted to the bar, she started her career as a Legal Officer of Securities and Exchange Commission (SEC). After 5 years of legal practice, she decided to enter the Judiciary and spent 36 years of her career as Municipal Judge, Metropolitan Trial Court judge, Regional trial Court Judge, Associate Justice of Court of Appeals and became an Associate Justice of the highest court of the country, the Supreme Court. During her time in the Supreme Court, she joined various committees, one of those was House of Representative Electoral tribunal (HRET) as Chairperson, and a member of Presidential Electoral Tribunal. She was also a Bar Examiner of Labor Law and Social Legislation during the 1996 Bar Examination and Taxation Law on 1998 Bar Examination.

**Monico V. Jacob**  
**Independent Director**

Monico V. Jacob, 68 years old, has been Independent Director of the Company since March 7, 2008. He is President and Chief Executive Officer of the STI Education Systems Holdings, Inc., a publicly listed company; of STI Education Services Group, Inc.; and of West Negros University. He is also the Chairman of Philplans First, Inc., a pre-need company; of Philippine Life Financial, Inc., a life insurance company, and of Republic Surety and Insurance Co., a non-life insurance Company. He likewise sits as an independent director of Jollibee Foods, Inc., Century Properties, Lopez Holdings, Inc. and 2GO Shipping. He sits as Director of Asian Terminals, Inc., Philhealthcare Systems, Inc, an HMO, Philippine Women's University and IAcademy.

**Directorships in Other Reporting Companies**

The following are directorships held by the directors and executive officers in other reporting companies during the last five (5) years:

<b>Name of Director</b>	<b>Name of Reporting Company</b>	<b>Position Held</b>
Consuel Ynares Santiago	Boulevard Holdings, Inc.	Independent Director
Monico V. Jacob	Jollibee Foods Corporation Century Properties Lopez Holdings, Inc. 2GO Shipping	Independent Director

**Period of Directorship in the Company**

<b><u>Name</u></b>	<b><u>Period of Service</u></b>	<b><u>Term of Office</u></b>
Dennis A. Uy	since incorporation to present	1 year
Domingo T. Uy	since incorporation to present	1 year
Socorro T. Ermac-Cabreros	2006 to present (except 2009, 2010)	1 year
Romeo B. De Guzman	since 2009 to present	1 year
Jose Manuel R. Quimson	2007 to present	1 year
J.V. Emmanuel De Dios	2007 to present	1 year
Cherylyn C. Uy	2004 to 2006, 2013 to present	1 year
Paul G. Dominguez	2013 to present	1 year
Joseph John L. Ong	2013 to present	1 year
Monico V. Jacob	2008 to present	1 year
Consuelo Ynares Santiago	2013 to present	1 year

### Certificate of Qualification of the Independent Directors

The Company will submit an updated Certificate of Qualification of all independent directors pursuant to the October 20, 2006 notice of the Commission on or before the Company's distribution of the Definitive Information Statement to the security holders on February 14, 2014.

### Certificates of Attendance of Directors for 2013 and Compliance with the Provisions of the Manual of Corporate Governance

Copies of the Corporate Secretary's Sworn Certifications on the attendance of Directors for the year 2013 and compliance with the Provisions of the Manual of Corporate Governance are attached hereto as **Annexes "C" and "D"**, respectively.

### Executive Officers

The following is a list of other executive officers and their business experiences during the past five (5) years:

**Ramon Edison C. Batacan**, Filipino, 55 years old, was appointed Chief Corporate Counsel and concurrently Chief Compliance Officer of the Company in 2013. He is founder and currently Managing Partner of BM&V Law Firm. He served as member of the Board of Regents of the University of Southeastern Philippines (USEP) and currently director of the Rizal Memorial Colleges. He was past president [2001-2003] of the Integrated Bar of the Philippines, Davao City Chapter and past governor [2007-2009] of the IBP-Eastern Mindanao Region. He is also currently a faculty of the Ateneo de Davao University College of Law handling Property, Negotiable Instruments Law and Law of Natural Resources and Environmental Law. Atty. Batacan graduated with the degree in Bachelor of Science in Mechanical Engineering (BSME) at the University of Mindanao (UM) in 1979. He earned his masters degree in Business Administration (MBA) at the University of Southeastern Philippines (USEP) in 1986. He earned his law degree at the Ateneo de Davao University College of Law in 1990, *cum laude* and was admitted to the Philippine Bar in 1991.

**Chryss Alfonsus V. Damuy**, Filipino, 40 years old, is the Treasurer and the Vice-President for Finance of the Company. Prior to his employment with the Company, he was the Controller of Lapanday Foods Corporation and held various positions in its subsidiaries including the Fresh Asia Produce as Accounting Manager and the Mindanao Fresh Produce Services Corporation as Assistant Accounting Manager. He also worked as Chief Accountant of the Regional Educators Multi-purpose Cooperative and as its Branch Officer. Mr. Damuy started his professional career as College Instructor of the Holy Cross

of Davao College where as a dean's lister, he earned his Bachelor of Science Degree in Accountancy in 1997. Mr. Damuy is a Certified Public Accountant.

**Alan Raymond T. Zorrilla**, Filipino, 44 years of age, is the Vice President for External Affairs, Business Development, and Security of the Company. Prior to his employment with the Company, he was Chief Legal Counsel of the Unioil Group of Companies where he headed the Legal, Human Resources, and Administrative Departments. He also served as Director for Freeport Services Corporation, a 100% subsidiary of Subic Bay Metropolitan Authority and was once a Legal Consultant of the Department of Environment and Natural Resources. Atty. Zorrilla was engaged in the litigation practice with Pangilinan Britanico Sarmiento and Franco Law Offices before he entered corporate practice. He formerly worked as Corporate Legal Counsel of publicly-listed Fil-Estate Group of Companies under its Litigation and Labor Department. Atty. Zorrilla completed his law studies at the San Beda College of Law in 1994 and was admitted to the Philippine Bar in 1995. He also took up his masteral studies at the Ateneo Graduate School of Business. He is an Army Reservist and a concurrent Commander (Lt. Colonel) of the Philippine Coast Guard Auxiliary.

**Edgardo A. Alerta**, Filipino, 58 years old, is the Vice President for Sales Mindanao. He handles both Commercial and Retail Sales in Mindanao. Mr. Alerta, who is a licensed Mechanical Engineer, has more than 25 years work experience in the energy and petroleum industries from the government and multinational corporations. Prior to joining the Company, he worked with Pilipinas Shell Petroleum Corporation for 15 years where he started as a Marketing Sales Executive and later progressed to District Sales Manager. He also worked as a Technical Services Engineer of Getty Oil Philippines and was an Energy Examiner of the Department of Energy. He holds two degrees in Engineering: Bachelor of Science Degrees Major in Mechanical Engineering and Electrical Engineering from the Cebu Institute of Technology. He was the Councilor in the Municipality of Matanao, Province of Davao del Sur for 12 years until June 30, 2013.

**Jose Roel C. Cruz**, Filipino, 46 years old, is the Assistant Vice President for Retail Sales-Mindanao. Mr. Cruz has more than 25 years of experience in the oil industry covering retail sales, retail operations, and marketing, as well as stints in the Human Resources department when he was with Pilipinas Shell Petroleum Corporation from 1988 to 2011. The positions he handled were Retail Territory Manager, Standards Assistant, Cards Marketing Manager, Business Analyst, Recruitment Manager. Mr. Cruz set up a personal business before joining Phoenix Petroleum Philippines, Inc. in November 2011. He started as a Retail Manager for the Luzon area and was subsequently promoted to his current position in August 2012. He took his college course

in De La Salle University, and is a licensed Electronics and Communications Engineer.

**Joselito G. de Jesus**, Filipino, 59 years old, is the Assistant Vice-President for Commercial Sales-Luzon. Prior to joining the Company, Mr. de Jesus was the Assistant Vice-President for Reseller Trade of Petron Corporation. He joined the oil industry in late 1970's when became a Corporate Planning Analyst, then later on Corporate planning Manager/Coordinator, of the Philippine National Oil Company (PNOC). Mr. de Jesus also became a Manager in the Corporate Planning Department of PNOC Shipping and Transport Corporation and at the same time, he was also an assistant to the Chairman of PNOC. In the late 90's Mr. de Jesus transferred to Petron Corporation and stayed with the said Company for almost 17 years. He is a graduate of Bachelor of Science in Business Administration Major in Marketing and Finance from University of the Philippines and a Master of Business Administration of Ateneo Graduate School of Business.

**Jose Victor L. Cruz**, Filipino, 53 years old, is currently the Assistant Vice President for Retail Sales-South Luzon. Mr. Cruz has more than twenty-five (25) years of experience in the oil industry covering retail, commercial, lubricants sales, international business (aviation and shipping for Chevron and Texaco), marketing and distribution, and corporate affairs. Prior to joining the Company in 2010, Mr. Cruz was Vice President for Retail Network Operations of Flying V in 2008 before he was promoted to Chief Operating Officer in 2009. He was COO of Citadel Commercial, Inc. from 2001-2002 before he ventured into private enterprise. He held various positions in Caltex Philippines Inc. from 1983 up to 1991 when he handled CPI's International Business. Eventually, Mr. Cruz was appointed Executive Assistant – Marketing Commercial in 1992. In 1994, he held the position of District Manager – Luzon South Commercial and in 1996, as DM – Luzon Retail. Mr. Cruz completed his MBA curriculum at the De La Salle University. He is a graduate of B.S. Industrial Management Engineering, Minor in Mechanical Engineering and is a Professional Industrial Engineer under the Philippine Institute of Industrial Engineers.

**Edwin M. Jose**, Filipino, 54 years old is the Assistant Vice President for Retail Sales-North Luzon. Mr. Jose has logged more than 29 years in petroleum industry, with exposure in Retail, Commercial, LPG and Corporate Planning and Logistics of Petron Corporation. Before joining Phoenix, his Petron career started in Corporate Planning and Logistics. In the Retail Trade, he handled positions from Area Sales Executive, Retail Network Development and Sales Development Manager. After Retail, he was assigned to the Liquefied Petroleum Gas business where he handled the retail, commercial and independent refiller business for the entire Luzon area and his breakthrough programs in LPG such as the “one number delivery system”, the “80-20 sales project” and pioneering LPG metering for commercial accounts such as Jollibee, among others were reasons why Petron Gasul effectively captured market leadership in the retail sector. He was then given assignment as

Government Accounts Manager handling the National Power Corp and other Independent Power Producers, US and Phil. Military. His last position in Petron is District Manager for Metro Manila under Reseller Trade. After his stint with Petron, he set up franchise of two 7-11 convenience stores that are still operational to date. He is an Industrial Engineering degree holder from the University of Sto. Tomas, and an MBA candidate at Ateneo de Manila University.

**William M. Azarcon**, Filipino, 67 years old is currently the Asst. Vice President for Operational Engineering and Logistics. Mr. Azarcon has twenty-six (26) years experience in the oil industry, covering engineering operations, retail and distribution of bulk & packed products nationwide. Mr. Azarcon used to work for Pilipinas Shell Petroleum Corporation and served as Field Engineer in Operations nationwide constructing Depots & related facilities, i.e, jetties, submarine pipelines', bulk storage tanks among others. He likewise served as Head of Operations of North Luzon and transferred to Retail Engineering as Retail Engineering Manager nationwide. He also served as RVI (Retail Visual Identity) Manager. After retiring from Shell, Mr. Azarcon engaged in business as Retail Engineering Contractor of Shell. He holds a degree in Bachelor of Science in Mechanical Engineering from Mapua.

**Rebecca Pilar C. Caterio**, Filipino, 42 years old, is currently the Assistant Vice President for Credit and Collection of the Company. Previously, she was the Controller of Lapanday Packaging Inc., a company engaged in the manufacturing of cartons and in the production of fresh pineapple and vegetable. She was also the Accounting Manager of Fresh Asia Produce Company International Corporation, a company which is also owned by the Lapanday Group and is primarily engaged in the trading and marketing of bananas. Ms. Caterio started her professional career with the SGV & Co. as a Staff Auditor. She is a Certified Public Accountant and a member of the Philippine Institute of Certified Public Accountants (PICPA) since 1993. Ms. Caterio holds a Bachelor of Science Degree in Commerce, Major in Accounting from the Ateneo De Zamboanga.

**Reynaldo A. Phala** Filipino, 47 years old, is the Assistant Vice President for Treasury. He joined the Company in 2008 as its Credit and Collection Manager. Before joining the Company, he led a progressive banking career for 17 years, which he started at UCPB. He also worked with the Department of Trade and Industry as Municipal Trade and Industry Officer for a year. He graduated from Mindanao State University-General Santos City with the degree Bachelor of Science in Civil Engineering as a consistent academic scholar and passed the licensure examinations for Civil Engineers in May 1989. He recently finished his Master in Business Administration (MBA) under the Regis Program at the Ateneo Graduate School of Business.

**Maria Rita A. Ros**, Filipino, 54 years old, is currently the Assistant Vice President for Supply. Ms. Ros has more than thirty (30) years of experience in

the oil industry covering materials management, supply chain management, production planning, imports-exports, warehousing and logistics. She held various positions in Petron Corporation from 1981 up to 2011 when she handled Biofuels and Special Projects, and Supply Optimization. Ms. Ros set up a personal business before joining Phoenix Petroleum Philippines, Inc. in November 2013. She is a graduate of B.S. Chemical Engineering from the University of the Philippines, and is a licensed Chemical Engineer, and took up Basic Management at the Asian Institute of Management.

**Gigi Q. Fuensalida**, Filipino, 37 years old, is presently the Assistant Corporate Secretary of the Company. Prior to her employment with the Company, she was one of the Senior Associates of the Villaraza Cruz Marcelo and Angangco Law Office. For six years, Atty. Fuensalida specialized in Civil, Commercial and Criminal Litigation wherein she developed strategies for complex litigation and actively participated in the prosecution and defense of criminal cases before the regular trial courts, quasi-judicial bodies and the appellate courts. Atty. Fuensalida holds a degree in Bachelor of Arts Major in Political Science from the Ateneo de Manila University. She further obtained her Juris Doctor degree from the same institution and graduated with honors in 2002. Atty. Fuensalida is a member of the Integrated Bar of the Philippines since 2003.

#### Period of Service in the Company

<u>Name</u>	<u>Period of Service</u>
Joseph John L. Ong	November 3, 2010 to present
Ramon Edison C. Batacan	October 2013 to present
Socorro Ermac Cabrerros	2006 to present
Edgardo A. Alerta	2006 to present
Chryss Alfonsus V. Damuy	2008 to present
Rebecca Pilar C. Caterio	2005 to present
Reynaldo A. Phala	2008 to present
Alan Raymond T. Zorilla	2009 to present
Gigi Q. Fuensalida	2008 to present
William M. Azarcon	2009 to present
Jose Victor L. Cruz	May 11, 2010 to present
Joselito G. De Jesus	March 15, 2011 to present
Jose Roel C. Cruz	Nov. 15, 2011 to present
Edwin M. Jose	March 1, 2013 to present
Ma. Rita A. Ros	November 1, 2013 to present

#### Nominations of Directors and Independent Directors

The following are the final nominees who were duly screened by the nomination committee for election to the Board of Directors for the following fiscal year 2014 at the forthcoming Annual Meeting:

1. Domingo T. Uy
2. Dennis A. Uy
3. Jose Manuel R. Quimson
4. Romeo B. De Guzman
5. J.V. Emmanuel A. de Dios
6. Socorro Ermac Cabreros
7. Joseph John L. Ong
8. Monico V. Jacob (Independent Director)
9. Consuelo Ynares-Santiago (Independent Director)
10. Paul Dominguez
11. Cherylyn C. Uy

Retired Supreme Court Justice Consuelo Ynares-Santiago was nominated as Independent Director by Jose Manuel R. Quimson. On the other hand, Mr. Monico Jacob was nominated by Mr. Romeo B. De Guzman. Mr. Quimson and Mr. De Guzman or any of the nominated directors is not related to either Retired Justice Santiago or Mr. Jacob by consanguinity or affinity and has no professional or business dealings with them. Retired Justice Santiago and Mr. Jacob are neither officers nor substantial stockholders of the Company. They possess the qualifications and none of the disqualifications of independent directors. Retired Justice Santiago and Mr. Jacob hold only one (1) share each in the Company. Prior to being elected as Director of the Company, they have not, at any time, rendered any service to the Company.

The members of the Nomination Committee are: Atty. J.V. Emmanuel A. de Dios as Chairman, and the following as members: Cherylyn C. Uy, Jose Manuel R. Quimson, and Romeo B. de Guzman.

For the scheduled Annual Meeting, the Committee has screened and evaluated the candidates for Independent Directors based on the Rule 38 of the Securities Regulation Code ("SRC") and the Company's amended By-laws and Manual of Corporate Governance. Amendments to the By-laws of the Company incorporating the provisions of SRC Rule 38 were approved by the SEC on February 19, 2007.

*(For the individual write-ups of the afore-mentioned nominees, please refer to item 5 of this Information.)*

(b) Significant Employees

There are no significant employees or personnel who are not executive officers but are expected to make a significant contribution to the business of the Company.

(c) Family Relationships

With the exception of Messrs. Domingo T. Uy and Dennis A. Uy who are related to each other by consanguinity within the first civil degree, Dennis A. Uy and Cherylyn Uy, who are spouses to each other, and Domingo T. Uy and Cherylyn Uy who are related to each other by affinity, there are no other family relationships either by consanguinity or affinity up to the fourth civil degree among the directors, executive officers, and persons nominated and chosen by the Company to become directors and executive officers of the Company.

(d) Involvement in Certain Legal Proceedings

The Company's Independent Director, Monico V. Jacob, in his capacity as then Chairman of Petron Corporation, was recently impleaded in a case together with some government officials for Violation of Republic Act 3019 otherwise known as the Anti-Graft and Corrupt Practices Act involving tax credit payments. The case is now pending with the Sandiganbayan.

The Department of Justice ("DOJ") filed a case against the Dennis Uy with the Regional Trial Courts of Batangas City ("RTC Batangas") and Davao City ("RTC Davao") for alleged violation of the Tariff and Customs Code of the Philippines. RTC Batangas and RTC Davao issued its Orders dated 17 September 2013 and 11 October 2013, respectively, **DISMISSING** the twenty-five (25) Informations filed by the DOJ against Mr. Uy for lack of probable cause. On 07 October 2013, the DOJ filed a Motion for Reconsideration with Motion for Inhibition of Judge Ruben A. Galvez dated 07 October 2013 with RTC Batangas. On the other hand, on 15 November 2013, the DOJ filed a Motion for Reconsideration with Motion for Inhibition of Judge George A. Omelio dated 15 November 2013 with RTC Davao. On 06 December 2013, RTC Batangas issued an Order dated 06 December 2013 **DENYING** the DOJ's Motion for Reconsideration with Motion for Inhibition. On the other hand, the DOJ's Motion for Reconsideration with Motion for Inhibition of Judge George A. Omelio is still pending with RTC Davao and set for hearing on 03 March 2014.

Except for the above, to the best of the Company's knowledge there has been no occurrence during the past five (5) years up to the date of this Report of any of the following events which are material to an evaluation of the ability or integrity of any director, person nominated to become a director, executive officer, or control person of the Company:

- (i) Any insolvency or bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the insolvency or within two years prior to that time;

- (ii) Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
  - (iii) Any final and executory order, judgment, or decree or any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and
  - (iv) Any final and executory judgment by a domestic or foreign court or competent jurisdiction (in a civil action), the Securities and Exchange Commission ( "SEC"), or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.
- (e) Certain Relationships and Related Transactions

The Group's related parties include the ultimate parent company, parent company, stockholders, the Group's key management and others as described below and in the succeeding pages. The following are the transactions with related parties:

### 23.1 Rentals

The Group has an operating lease agreement with Udenna Corporation, the ultimate parent Company. The total rent expense of the Company is presented as follows:

2010	2011	2012	2013	TOTAL
5,187,308.72	6,273,396.64	18,189,649.93	56,934,318.17	86,584,673.46

### 23.2 Due from Related Parties

The breakdown of due from related parties as of December 31, 2012 and December 31, 2013 are as follows:

	2013	2012
<b>PPHI</b>		
Balance at beginning of year	-	-
Additions		-
Collections		
<b>Balance at end of year</b>	-	-

<b>UMRC</b>		
Balance at beginning of year	4,963,790.66	9,472,308.32
Additions		
Collections		(14,436,098.98)
<b>Balance at end of year</b>	<b>4,963,790.66</b>	<b>(4,963,790.66)</b>
<b>Total Due from Related Parties</b>		
Balance at beginning of year	4,963,790.66	9,472,308.32
Additions		-
Collections		(14,436,098.98)
<b>Balance at end of year</b>	<b>4,963,790.66</b>	<b>(4,963,790.66)</b>

The Group's advances to related parties are presented as Due from Related Parties in the consolidated balance sheet.

**23.3 Key Management Compensations** The compensations of key management personnel are broken down as follows:

	<b>2012</b>	<b>2013</b>
Salaries	36,822,265	40,724,453
Honoraria and Allowances	4,129,412	4,447,058
13th Month and Bonuses	4,416,398	4,586,418
SSS, PHIC, HDMF and Others	242,700	269,819
	<b>45,610,775</b>	<b>50,027,748</b>

#### **Item 6. Compensation of Directors and Executive Officers**

The Company's executives are regular employees and are paid a compensation package of twelve (12)-months pay. They also receive performance bonuses similarly to those of the managerial, supervisory and technical employees.

The members of the Board of Directors who are not employees of the Company are elected for a period of one (1) year. They receive a reasonable per diem on a per meeting participation.

There are no other arrangements for which the members of the Board of Directors are compensated.

The aggregate compensation paid or incurred during the last three (3) fiscal years and estimated to be paid in the ensuing fiscal year to the executive officers of the Company are as follows:

#### Summary of Compensation Table

Compensation of Executive Officers and Directors (in thousand Pesos)					
Name	Principal Position	Year (s)	Salaries (in ₱)	Bonuses / 13 <sup>th</sup> Month / Other Income (in ₱)	Total (in ₱)
<u>Dennis A. Uy</u>	<u>President and Chief Executive Officer</u>	12			
<u>Romeo B. De Guzman</u>	<u>Chief Operating Officer</u>	5			
<u>Joseph John L. Ong</u>	<u>Chief Finance Officer</u>	3 ½			
<u>Chryss Alfonsus V. Damuy</u>	<u>VP Finance &amp; Comptroller</u>	6			
<u>Allan Raymond T. Zorrilla</u>	<u>AVP – External Affairs, HR and Branding</u>	5			
<b>Total 2013</b>					<b>₱ 24,783</b>
<b>Total 2012</b>					<b>₱ 22,431</b>
<b>Total 2011</b>					<b>₱ 18,814</b>
<b>Total 2010</b>					<b>₱ 14,652</b>
<b>Estimates in 2014</b>					<b>₱26,668</b>

Generally, a typical employment contract executed between the Company and its named executive officers has the following terms:

1. Specification of job title, commencement date of employment, work assignment and possible need for reassignment of work or location as the need may arise;
2. A probation period of six months probationary period from commencement of employment. If the job performance is found to be satisfactory, employment shall be converted to regular basis.
3. Salary & Benefits: specifies that the executive shall receive his monthly salary and a guaranteed 13<sup>th</sup> month pay less the necessary government deductions allowed by law such as but

not limited to SSS premium, Philhealth, Pag-IBIG contributions. The same section likewise provides that the executive's salary shall be subject to annual review which shall take into consideration his performance and the achievement of a mutually-agreed goals.

4. **Exclusivity:** The employment contract provides that the executive shall render exclusive service to the Company and the prohibition to work with other companies regardless of whether such work is done outside office hours, without the consent of the Company.
5. **Confidentiality:** The executive/employee is duty bound to keep all information, materials and records which he or she may access in the course of his/her employment with the Company are confidential in nature and he or she may not disclose or reproduce the same without the consent of the Company.
6. **Professional Conduct:** The executive concerned is expected to comply with all the policies and procedures which the Company may issue from time to time. It is specifically prohibited to accept any or all kinds of gifts from suppliers and customers without the consent of the Company

### **Compensation Committee**

The Company's Compensation Committee shall be composed of at least three (3) members of the Board, one of whom shall be an Independent Director. It is tasked with establishing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provides oversight over remuneration of senior management and other key personnel.

The following are the members of the Compensation Committee:

Dennis A. Uy	Chairman
Domingo T. Uy	Member
Justice (Ret) Consuelo Ynares Santiago	Member
Joseph John L. Ong	Member (non-voting)

### **Employee's Stock Options Plan**

The Commission has approved the application for exemption from the registration requirement of the Securities Regulations Code of the Company for the proposed issuance of 24,493,620 common shares for the Company's Employee's Stock Options Plan (ESOP).

The ESOP Committee of the Company has already approved the ESOP internal guidelines.

On 24 January 2013, the Board of Directors of the Company approved the setting of the Initial Offering Date for the ESOP on 01 March 2013. Grantees of the ESOP have yet to be named by the Company.

## **Item 7. Independent Public Accountants**

The financial statements of the Company were audited by Punongbayan & Araullo for the years ended December 31, 2011, 2012, and 2013. Said external auditor has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and the Professional Regulation Commission.

Punongbayan & Araullo will be recommended for re-appointment at the scheduled Annual Meeting.

Representatives of the firm are expected to be present at the Annual Meeting and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Punongbayan & Araullo was first appointed external auditor of the Company in 2006. The Company is compliant with SRC Rule 68, paragraph 3(b)(IV) (Rotation of External Auditors). The certifying partner for the examination of the Company's financial statements for the year/s 2011 is Mr. Romualdo V. Murcia II.

### Audit Fees

The following table sets out the aggregate fees billed for each of the last three (3) fiscal years for professional services rendered by the Company's external auditors.

<b>Audit and Related Fees</b>				
		Amount in Thousands Php		
Particulars	Nature	2011	2012	2013
Punongbayan and Araullo	Audit of FS for the year 2008 - Parent and Subsidiaries			
Punongbayan and Araullo	Audit of FS for the year 2009 - Parent			

	and Subsidiaries			
Punongbayan and Araullo	Audit of FS for the year 2010 –Parent and Subsidiaries	3,553.19		
Punongbayan and Araullo	Audit of FS for the year 2011 - Parent and Subsidiaries	462.00	2,110.06	
Punongbayan and Araullo	Audit of FS for the year 2012 - Parent and Subsidiaries		630	3,302.60
Punongbayan and Araullo	Audit of FS for the year 2013 - Parent and Subsidiaries			<b>2,609.42</b>
<b>Sub-total</b>		<b>4,015.19</b>	<b>2,740.06</b>	<b>5,912.02</b>
<b>Tax Advisory Services</b>				
Sycip, Gorres and Velayo	Tax Consultancy	122.34	119.94	190.12
<b>Sub-total</b>		<b>122.34</b>	<b>119.94</b>	<b>190.12</b>
<b>All Other Fees</b>				
Entia Accounting Office	Professional Fee for BOI Registration of Depot Facilities			
<b>Sub-total</b>		-		
<b>GRAND TOTAL</b>		<b>4,137.54</b>	<b>2,860</b>	<b>6,102.14</b>

#### Audit Committee and Policies

Under the Company's By-laws, the Audit Committee is responsible for, among others, the setting-up of an internal audit department and considers the appointment of an internal auditor as well as the independent external auditor, the audit fees and any question of resignation or dismissal, and the review of the quarterly, half-year and annual financial statements before their submission to the Board of Directors.

In accordance with the Company's By-laws and Manual of Corporate Governance, in 2007, the Company formed its Audit Committee. The Company's Audit Committee shall be composed of at least three (3) members of the Board, preferable with accounting and finance background, one of whom shall be an Independent Director and another should have related audit experience. The chairman of the Audit Committee should be an independent director and he should be responsible for inculcating in the minds of the members of the Board the importance of management responsibilities in maintaining a sound system of internal control and the Board's oversight responsibility.

The following are the members of the Audit Committee: Monico Jacob (Independent Director) as Chairman, and Domingo T. Uy and Paul G. Dominguez as members.

The Internal Audit systems of the Company are in place since 2008 but these auditing tools are strengthened this year. The Internal Audit's role and responsibilities are defined in the Audit Charter approved by the Board of Directors. Primarily, it assists the Audit Committee of the Board in fulfilling its oversight responsibility to the shareholders by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and internal control processes.

Internal Audit, in fulfilling its role, performs the following general functions: 1.) evaluating the Company's governance processes including ethics-related programs; 2.) performing an objective assessment of the effectiveness of risk management and internal control framework, identifying risk exposures and recommending strategies to mitigate them; 3.) evaluating the reliability and integrity of financial statements and the financial reporting process; 4.) analyzing and evaluating business processes and associated controls; 5.) determining compliance with applicable laws and regulations.

#### Changes In and Disagreements With Accountants

The Company has not had any disagreement with its previous and current external auditor/independent public accountant on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

### **Item 8. Compensation Plans**

No action is to be taken by the Company with respect to any compensation plans.

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **Item 9. Authorization or Issuance of Securities Other than for Exchange**

#### **(A) Description of Registrant's Securities.**

- (1) (a) There are no authorization or issuance of securities other than for exchange for outstanding securities for the registrant.

(b) The Company's dividend policy is to declare at least 30% of its prior year's net income as dividends, whether in stock or in cash, payable out of its unrestricted retained earnings subject to statutory limitations.

Each holder of a common share is entitled to such dividends as may be declared in accordance with the Company's dividend policy. The Company's current dividend policy entitles holders of common shares to receive dividends based on the recommendation of the Board of Directors. Such recommendation will consider such factors as operating expenses, implementation of business plans, and working capital among other factors. Each holder of a common share does not have pre-emptive rights to any issue of the Company's share.

In 2011, the Company declared and paid the following dividends to all stockholders: cash dividend to all stockholders of record as of March 25, 2011 in the amount of Ten Centavos (0.10 Php) per share with payment date on April 20, 2011; and 30% stock dividends to all stockholders of record as of April 8, 2011 with payment date on May 6, 2011.

In 2012, the Company declared and paid the following dividends to all stockholders: 50% stock dividends to all stockholders of record as of March 28, 2012 with payment date on April 26, 2012; cash dividend at the rate of Php 0.10 per share to all stockholders of record as of March 23, 2012.

In 2013, the Company declared and paid all the following dividends to all stockholders: 30% stock dividends to all stockholders of record as of May 15, 2013 with payment date on June 10, 2013; cash dividend at the rate of Php 0.10 per share to all stockholders of record as of April 11, 2013.

Each holder of a common share shall have the right to one vote, and shall be entitled to notice of any shareholders' meeting in accordance with the Company By-Laws, and shall be entitled to vote upon such matters and in such manner as may be provided by law.

Each stockholder of the Company does not have pre-emptive rights to subscribe to any issue or disposition of shares by the Company of any class.

Each holder of a common share does not have any other material right provided in the Company's Articles of Incorporation or By-Laws.

There are no provisions in the charter or by-laws that would delay, defer or prevent a change in control of the Company.

**Item 10. Modification or Exchange of Securities**

No action is to be taken by the Company with respect to modification or Exchange of Securities.

**Item 11. Financial and Other Information**

The Management Report is attached herein as **Annex B** and the financial statements of the Company as of September 30, 2013 (SEC Form 17-Q) is attached herein as **Annex "B-1"**;

**Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

No transactions to be taken by the Company with respect to any transaction involving mergers consolidations, acquisitions and similar matters.

**Item 13. Acquisition or Disposition of Property**

No transaction to be taken by the Company with respect to the any transaction involving acquisition or disposition of any Property.

**Item 14. Reclassification of Accounts**

No actions are to be taken with respect to the restatement of any asset, capital, or surplus account of the Company.

**D. OTHER MATTERS**

**Item 15. Action with Respect to Reports and Other Proposed Action**

1. Approval of the Minutes of the Annual Stockholders' Meeting held last 08 March 2013 covering the following matters:
2. Report of the President and Chief Executive Officer
3. Approval of the 2013 Audited Financial Statements and 2013 Annual Report
4. Ratification and Confirmation of all Acts and Resolutions of the Board and Management executed in the normal course of business covering the period of 01 February 2013 until 30 January 2014 as set forth in **Annex "A."**
5. Election of the Members of the Board of Directors
6. Election of External Auditor.

**Item 16. Matters Not Required to be Submitted**

There are no actions to be taken with respect to any matter, which are not required to be submitted to a vote by security holders.

**Item 17. Amendment of Articles of Incorporation, By-laws or Other Documents**

There are no proposed amendment to the Articles of Incorporation or By-Laws of the Corporation that will be submitted to the stockholders for approval.

**Item 18. Other Proposed Action**

There are no other proposed actions to be approved.

**Item 19. Voting Procedures**

Under the Corporation Code, the affirmative vote of stockholders representing at least two thirds (2/3) of the outstanding capital stock of the Company shall be necessary for the approval of the proposed amendment to the Articles of Incorporation and the investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

Except in cases provided above, or where the law provides otherwise, all matters subject to vote shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

Stockholders of record are entitled to one (1) vote per share. There is no manner of voting prescribed in the By-Laws of the Company. Hence, voting may be done by *viva voce*, raising of hands or by balloting.

The external auditor of the Company, Punongbayan & Araullo, will validate the votes when voting is done by secret ballot. Likewise, Punongbayan & Araullo will count the number of hands raised when voting by show of hands is done.

The following items will be included in the agenda for the meeting:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held last March 08, 2013
4. Report of the President and Chief Executive Officer

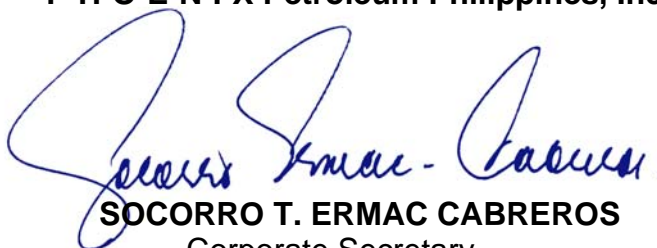
5. Approval of the 2013 Audited Financial Statements and 2013 Annual Report
6. Ratification and Confirmation of all Acts and Resolutions of the Board and Management executed in the normal course of business covering the period of 01 Feb 2013 until 31 January 2014
7. Election of the Members of the Board of Directors
8. Appointment of External Auditor
9. Other Matters
10. Adjournment

### **SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct.

This report is signed in Davao City on 30 January 2014.

**P-H-O-E-N-I-X Petroleum Philippines, Inc.**



**SOCORRO T. ERMAC CABREROS**  
Corporate Secretary

# ANNEX A

<b>ACTS AND RESOLUTIONS OF THE BOARD OF DIRECTORS February 1, 2013 to January 30, 2014</b>	
<b>4 Feb 2013</b>	<ul style="list-style-type: none"> <li>to participate in the bidding of fuel requirements that if awarded the tender shall enter into contract with the <b>NATIONAL POWER CORPORATION</b></li> </ul>
	<ul style="list-style-type: none"> <li>to enter, execute, engage, negotiate and transact with <b>Maybank Philippines, Inc.</b> or any of its affiliate banks or branches, a swap facility or a similar commodity derivative trade up to the value of 30,000 bbls per month.</li> </ul>
	<ul style="list-style-type: none"> <li>to apply for and/or obtain with <b>UNITED COCONUT PLANTERS BANK</b> for its accreditation under the <b>SALARY LOAN PROGRAM</b> (the "Program") of the <b>Bank</b> in the aggregate principal amount of <b>FOUR MILLION FIVE HUNDRED THOUSAND PESOS (₱4,500,000.00)</b>.</li> </ul>
	<ul style="list-style-type: none"> <li>to transact with <b>ONE CORPORATE GRAND TOURS</b> on the E-Ticket purchases and request thru email the Verification Code generated by the BDO Swiping Machines on the payment confirmation of the E-Ticket Reservations, to further do Swiping Machine Queries.</li> </ul>
	<ul style="list-style-type: none"> <li>to apply, subscribe, and enroll with <b>MAYBANK PHILIPPINES INC.'s</b> Check Cutting Services.</li> </ul>
	<ul style="list-style-type: none"> <li>to apply, open and transact for its corporate accounts with the <b>Park Inn(By Radisson)</b>, Lanang, Davao City.</li> </ul>
	<ul style="list-style-type: none"> <li>to apply for and obtain Cash Management Services (CMS) and open and maintain the required accounts such as but not limited to the following: Deposit Accounts, Current Accounts, Savings Accounts and/or Trust Accounts (the "Deposit Account/s") which may be necessary and required for the efficient operation of the CMS with <b>MAYBANK PHILIPPINES, INC.</b></li> </ul>
	<ul style="list-style-type: none"> <li>to create a Corporate INVESTMENT MANAGEMENT ACCOUNT with <b>PHILIPPINE NATIONAL BANK – TRUST BANKING GROUP (PNB-TBG)</b> to be invested in <b>BSP-Special Deposit Account (SDA)</b>; and that PNB-TBG be appointed as Investment Manager to manage the funds of the said account, subject to the terms and conditions of the Corporate Investment Management Agreement between PNB-TBG and PHOENIX PETROLEUM PHILIPPINES, INC.</li> </ul>
<b>5 Feb 2013</b>	<ul style="list-style-type: none"> <li>to open and maintain a Dollar Savings or Current deposit account with the Development Bank of the Philippines –Davao C.M. Recto Ave. Branch.</li> </ul>
	<ul style="list-style-type: none"> <li>to borrow money, arrange and negotiate with <b>CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION</b> (hereafter, "Bank"), for credit facilities, to secure trust receipts, to obtain other credit facilities, to enter into and assume any other financial undertaking with the Bank, with or without security, and under such terms and conditions as may be determined by its signatories / representatives, as well as to assume any financial undertaking with the Bank, with or without security</li> </ul>
<b>6 Feb 2013</b>	<ul style="list-style-type: none"> <li>to transact, deal, negotiate and enter into an <b>Amendment of the Subscription Agreement with PPHI</b> to reflect the changes as follows: allow partial settlement of the unpaid subscription of PPHI and amend the computation of the price of the subscribed shares, under such terms and conditions as may be in the best interests of the Corporation; to transact, deal, negotiate and enter into a Placing Agreement with PPHI, as Selling Shareholder, and CLSA Limited, as Arranger, for the sale of PPHI's common shares in the Corporation to investors and the use of the proceeds from said sale to pay for PPHI's unpaid subscription in the Corporation, and to do such other actions as may be necessary or appropriate to effect consummation of the sale of PPHI's common shares, under such terms and conditions as may be in the best interest of the Corporation, and to appoint <b>CLSA Limited as Arranger</b> for the said transaction.</li> </ul>
<b>5 Mar 2013</b>	<ul style="list-style-type: none"> <li>to apply with the local government for a business permit for the <b>year 2013</b> and the succeeding years thereafter relative to its depot operation at bulk storage tank facilities situated at <b>Tupas St., Cebu</b>.</li> </ul>
	<ul style="list-style-type: none"> <li>to negotiate, conclude and enter into contracts such as, Memorandum of Agreements,</li> </ul>

	Rental/Lease Agreements and other transactions relative to the operation of the Company's <b>Brand Management Group (BMG) in Mindanao.</b>
	<ul style="list-style-type: none"> <li>to apply, transact, negotiate and process pertinent documents and permits with various government entities/offices relative to the construction (design, civil, electrical and mechanical) of <b>COMMERCIAL and RETAIL OPERATION</b> within the Islands of Mindanao and Visayas.</li> </ul>
<b>2 Apr 2013</b>	<ul style="list-style-type: none"> <li>to enter into Deeds of Assignment with GREAT POLARIS TEXTILE MILLS, INC., MIGHTY TEXTILE INTERNATIONAL CORP., WINTEX TEXTILES INDUSTRIES, INC., DIVINE TEXTILE, FOX VALLEY KNITTING MILLS INC., SILVERTEX WEAVING CORP., PRIMEKNIT MFG. CORP., UNI-GLORY'S KNITTING CORP., CANNON TEXTILE, POWERKNIT INC., KNITECH MFG., INC., SURELUCK TEXTILE MFG. CORP., UPTX KNITTING MFG. CORP., NORTHGATE ASIA LOOMS, INC., POLYTEXTIL, INC. and CAPITAL ROLL-KNIT CORP. for the assignment of their Tax Credit Certificates issued and to be issued by the Department of Finance in their respective names for the period of three (3) months, from April 2013 to June 2013, to the Corporation.</li> </ul>
	<ul style="list-style-type: none"> <li>that in relation to the investigation conducted by the <b>Bureau of Internal Revenue (BIR)</b> against the Corporation pertaining to its 2009 income tax liabilities, the Corporation is hereby authorized to execute a Waiver of the Statute of Limitation prescribed under Section 203 and 222 of the National Internal Revenue Code and consent to further investigation and possible assessment and/or collection of tax or taxes of said year if proper and which may be found due after investigation at any time before or after the lapse of the period of limitations fixed by said sections of the National Internal Revenue Code but not later than <u>JUNE 30, 2013</u></li> </ul>
	<ul style="list-style-type: none"> <li>to negotiate, conclude and enter into contracts such as, Contract of Lease and/or sublease, Memorandum of Agreements, dealership, retail outlet contract, Owner-Contractor Agreements and other retail sales and commercial sales transactions, including any bidding transactions to be entered into and other legal transactions relative to the operation of the Corporation in Visayas and Mindanao, for and on behalf of the Corporation;</li> </ul>
	<ul style="list-style-type: none"> <li>open and maintain a Current , Savings, Special Savings and Time Deposit with <b>MAYBANK (Davao Business Center)</b>, J.P. Laurel Ave., Davao City</li> </ul>
<b>4 Apr 2013</b>	<ul style="list-style-type: none"> <li>to into an Escrow Agreement with Udenna Management and Resources Corp., Dennis A. Uy, Cherylyn C. Uy, Jose Manuel R. Quimson, Socorro Ermac Cabreros, Ignacia S. Braga IV ("<b>Shareholders</b>") and BDO Unibank, Inc.-Trust and Investment Group ("<b>Escrow Agent</b>") relative to the Company's Share Swap Agreement dated September 14, 2012 and additional Listing Application covering 171, 250,799 common shares issued to the above-named stockholders and pursuant to the Section 1, Part A, Article V (Additional Listing Securities), of the Revised Listing Rules of PSE;</li> </ul>
	<ul style="list-style-type: none"> <li>to borrow money, arrange and negotiate with <b>CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION</b> (hereafter, "Bank"), for credit facilities, to secure trust receipts, to obtain other credit facilities, to enter into and assume any other financial undertaking with the Bank, with or without security, and under such terms and conditions as may be determined by its signatories / representatives, as well as to assume any financial undertaking with the Bank, with or without security; and to open Peso and/or US Dollars and/or other foreign currencies Current/Savings Account, Special Savings, or Time Deposit with the Bank; to transact Treasury products such as Foreign Exchange Trading, Spot Exchange, Foreign Exchange Forward, Non-deliverable Forward, and other derivative products such as swap and option, which are denominated in Peso and/or US Dollars and/or other foreign currencies; and to invest in Money Market Placements, Special Deposit Account (SDA), Government Securities and other sovereign bonds, and Corporate Bonds through the Bank.</li> </ul>
	<ul style="list-style-type: none"> <li>to enter into an agreement with <b>ASIA UNITED BANK</b> for an Employee Loan Program to be availed of by the Company's qualified employees; <b>Execute and sign the Memorandum of Agreement</b> and all other documents related to the Employee Loan Program and any and all documents relating to the renewals / extensions of the Corporation's accreditation under the Loan Program.</li> </ul>
<b>5 May 2013</b>	<ul style="list-style-type: none"> <li>to participate in the bidding of <b>SUPPLY AND DELIVERY OF ENGINE LUBRICATING OIL (ELO) TO SPUG POWER PLANTS AND BARGES for June to December 2013</b>, that if awarded the tender shall enter into a contract with the <b>National Power Corporation.</b></li> </ul>

	<ul style="list-style-type: none"> <li>authorized to participate in the bidding of <b>SUPPLY AND DELIVERY OF OIL-BASED FUEL TO SPUG POWER PLANTS AND BARGES for May to December 2013</b>, that if awarded the tender shall enter into a contract with the <b>National Power Corporation</b>.</li> </ul>
	<ul style="list-style-type: none"> <li>to apply for ancillary permit with the <b>Philippine Ports Authority</b> for its operation in Bacolod City;</li> </ul>
<b>6 May 2013</b>	<ul style="list-style-type: none"> <li>to file and apply for the <b>Voluntary Disclosure Program (VDP)</b> of and with the Bureau of Customs (BOC) for the period covering 22 June 2010 to 09 July 2012</li> </ul>
	<ul style="list-style-type: none"> <li>to open PESO and US DOLLAR Savings, Current, Time Deposits Accounts with <b>United Coconut Planters Bank - Subic Bay Freeport Branch</b>; to invest funds in Money Market placements with the said bank; to enter into with its Trust Banking Division a Trust/Investment Management Agreement (BSP-SDAI CTDIVarious Unit Investment Trust Funds) , for the management and administration of the funds of the Corporation.</li> </ul>
<b>5 Jun 2013</b>	<ul style="list-style-type: none"> <li>to apply and process the Company's renewal for Certificate of Accreditation with the <b>Bureau of Customs</b>.</li> </ul>
	<ul style="list-style-type: none"> <li>to avail of any or all of the electronic banking services of <b>UCPB</b> and to open and enroll such Bank accounts with UCPB specifically for this purpose or to enroll for this purpose all or any of its existing bank account(s) with UCPB</li> </ul>
	<ul style="list-style-type: none"> <li>to enter into Deeds of Assignment with <b>GREAT POLARIS TEXTILE MILLS, INC., MIGHTY TEXTILE INTERNATIONAL CORP., WINTEX TEXTILES INDUSTRIES, INC., DIVINE TEXTILE, FOX VALLEY KNITTING MILLS INC., SILVERTEX WEAVING CORP., PRIMEKNIT MFG. CORP., UNI-GLORY'S KNITTING CORP., CANNON TEXTILE, POWERKNIT INC., KNITECH MFG., INC., SURELUCK TEXTILE MFG. CORP., UPTX KNITTING MFG. CORP., NORTHGATE ASIA LOOMS, INC., POLYTEXTIL, INC. and CAPITAL ROLL-KNIT CORP.</b> for the assignment of their Tax Credit Certificates issued and to be issued by the Department of Finance in their respective names for the period of three (3) months, from <b>July 2013 to September 2013</b>, to the Corporation.</li> </ul>
	<ul style="list-style-type: none"> <li>to purchase one (1) share of stock of <b>The Country Club, Inc.</b> and authorized the <b>President and CEO, DENNIS A. UY</b>, to purchase, or otherwise acquire, said share in the name of the Corporation, at current market price.</li> </ul>
	<ul style="list-style-type: none"> <li>to apply and process the Company's request for issuance of BIR-Certified Copies of the following documents duly filed with BIR, viz: <ol style="list-style-type: none"> <li><b>VAT RETURN-BIR FORM 2550Q 1<sup>st</sup> Qtr 2010</b></li> <li><b>VAT RETURN-BIR FORM 2550Q 2<sup>nd</sup> Qtr 2010</b></li> <li><b>VAT RETURN-BIR FORM 2550Q 3<sup>rd</sup> Qtr 2010</b></li> <li><b>VAT RETURN-BIR FORM 2550Q 4<sup>th</sup> Qtr 2010</b></li> </ol> </li> </ul>
	<ul style="list-style-type: none"> <li><b>PHILIPPINE NATIONAL BANK</b>, be appointed as the depository of the funds of this Corporation.</li> </ul>
	<ul style="list-style-type: none"> <li>to apply, transact, negotiate and process pertinent documents and permits with various government entities/offices relative to the installation of water, light and power supply of our <b>Phoenix Fuels Life Stations within the Island of Negros, Philippines</b>.</li> </ul>
	<ul style="list-style-type: none"> <li>that P-H-O-E-N-I-X PETROLEUM PHILIPPINES INC. gives blanket authorization to <b>Banco de Oro Unibank, Inc. ("BDO")</b> to issue certificate of bank deposit relative to its application for renewal of Accreditation with the Bureau of Customs, with respect to the Corporation's accounts ("Account/s")</li> </ul>
	<ul style="list-style-type: none"> <li>Approval of the payment of cash dividend at the rate of 11.5% per annum exclusively for its Preferred Shares holders ; that the aforementioned cash dividends for the Company's Preferred shares shall be payable on June 21, 2013; and_ that the payment of the aforesaid dividends for the Preferred shares shall be implemented and paid through Banco de Oro Unibank, Inc. – Trust and Investment Group, the Company's Stock Transfer Agent.</li> </ul>
	<ul style="list-style-type: none"> <li>Approval of the Audit Committee Charter which shall define and set out the role, responsibilities and authority of the Audit Committee.</li> </ul>
	<ul style="list-style-type: none"> <li>Approval of the following officers and/or members of the Board of the corporation in the manner and combination herein provided as authorized signatories effective September 8, 2013, to sign, draw or issue checks of the Company, for purposes of disbursing funds for its day-to-day operation, viz :</li> </ul>

	<p><b><u>Class A</u></b>  <b><u>Name of Officer and Position</u></b>  1. Dennis A. Uy (Chief Executive Officer)  2. Domingo T. Uy (Chairman)  3. Cherylyn C. Uy (Director)</p> <p><b><u>Class B</u></b>  <b><u>Name of Officer and Position</u></b>  1. Romeo B. de Guzman (Chief Operating Officer)  2. Joseph John L. Ong (Chief Finance Officer)  3. Reynaldo A. Phala (AVP – Treasury)</p> <p>1. That any one of the signatories in Class A shall constitute a valid transaction and shall have no limit in amount; or  2. A combination and concurrence of any one of the signatories in Class A and any one of the signatories in Class B, which shall have no limit in amount; or  3. In the absence of any one of the signatories in Class A, the signatures of any two of the signatories in Class B, but up to a limit of Php200,000.00.”</p>
4 Jul 2013	<ul style="list-style-type: none"> <li>to open and maintain Special Savings Deposit account with <b>the Development Bank of the Philippines</b> under account name, Phoenix Petroleum Philippines, Inc.</li> </ul>
	<ul style="list-style-type: none"> <li>to borrow money, arrange and negotiate with <b>CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION</b> (hereafter, “Bank”), for credit facilities, to secure trust receipts, to obtain other credit facilities, to enter into and assume any other financial undertaking with the Bank, with or without security, and under such terms and conditions as may be determined by its signatories / representatives, in the amount of <b>US DOLLAR: TWENTY MILLION (US\$20,000,000.00) or its PHILIPPINE PESO equivalent of EIGHT HUNDRED FORTY FIVE MILLION TWO HUNDRED THOUSAND (Php845,200,000.00)</b>, as well as to assume any financial undertaking with the Bank, with or without security;</li> </ul>
	<ul style="list-style-type: none"> <li>to avail of the 'forward exchange transactions and all credit facilities granted and provided by <b>Bank of the Philippines Islands (BPI)</b>.</li> </ul>
5 Aug 2013	<ul style="list-style-type: none"> <li>to negotiate and enter into an agreement with <b>HSBC</b> for HSBC to offer to the Corporation's employees various products under its Employee Privilege Plan (EPP) and/or for SalaryPlus, whereby HSBC will provides payroll services combined with the EPP; that the Corporation authorise and empower any of the following officers to negotiate with HSBC on the terms and conditions of, and to sign, execute and deliver, the EPP and/or SalaryPlus agreement as well as such contracts, instruments, certifications, documents and papers as may be necessary and desirable to implement said agreement.</li> </ul>
	<ul style="list-style-type: none"> <li>to transact with or instruct the <b>Rizal Commercial Banking Corporation</b> (the "Bank"), C. M. Recto Business Center, Davao City, or any other business center of the Bank, to effect withdrawals and/or fund transfers from the accounts of the Corporation, and/or do other bank transactions in the name of the Company, through facsimile (fax) and/or e-mail transmission.</li> </ul>
	<ul style="list-style-type: none"> <li>to participate in the bidding of for the Long-Term Lease and Development of the Concepcion and Macangcung Service Areas in Subic-Clark-Tarlac Expressway to be conducted by the Bases Conversion and Development Authority ('BCDA'), in particular, the long-term lease and development of the two(2)-hectare portions of the Concepcion and Macangcung services areas located at the south-bound and north-bound directions, respectively, of the Clark-Tarlac segment of the Subic-Clark-Tarlac Expressway, and that if awarded the bid, shall enter in a contract with BCDA, which includes the Contract of Lease.</li> </ul>
5 Sept 2013	<ul style="list-style-type: none"> <li>to approve the payment of <b>cash dividend at the rate of 11.5%</b> per annum exclusively for its Preferred Shares holders ; that the aforementioned cash dividends for the Company's Preferred shares shall be payable on September 23, 2013; and , that the payment of the aforesaid dividends for the Preferred shares shall be implemented and paid through Banco de Oro Unibank, Inc. – Trust and Investment Group, the Company's Stock Transfer Agent.</li> </ul>
	<ul style="list-style-type: none"> <li>to participate in the bidding of <b>Supply and Delivery Diesel Fuel and/or Unleaded Gasoline Requirements to the CITY GOVERNMENT OF CEBU</b>.</li> </ul>
	<ul style="list-style-type: none"> <li>to appoint <b>ALBERTO D. ALCID</b> and <b>CHRYSS ALFONSUS V. DAMUY</b> be authorized and empowered to sign, execute and deliver, for and on behalf of the Corporation, any and all pleadings, motions, papers, affidavits, and other documents including the verification and</li> </ul>

	certification of non-forum shopping, in the case entitled " <b>APL Co. Pte Ltd. vs. P-H-O-E-N-I-X Petroleum Philippines, Inc.</b> ", Civil Case No. R-PSY-13-13405-CV, (the "Case"), and at all stages thereof, including any pre-trial conferences and appeal proceedings.
	<ul style="list-style-type: none"> <li>to enter into Deeds of Assignment with <b>GREAT POLARIS TEXTILE MILLS, INC., MIGHTY TEXTILE INTERNATIONAL CORP., WINTEX TEXTILES INDUSTRIES, INC., DIVINE TEXTLE, FOX VALLEY KNITTING MILLS INC., SILVERTEX WEAVING CORP., PRIMEKNIT MFG. CORP., UNI-GLORY'S KNITTING CORP., CANNON TEXTILE, POWERKNIT INC., KNITECH MFG., INC., SURELUCK TEXTILE MFG. CORP., UPTX KNITTING MFG. CORP., NORTHGATE ASIA LOOMS, INC., POLYTEXTIL, INC. and CAPITAL ROLL-KNIT CORP.</b> for the assignment of their Tax Credit Certificates issued and to be issued by the Department of Finance in their respective names for the period of three (3) months, from <b>October 2013 to December 2013</b>, to the Corporation.</li> </ul>
<b>4 Oct 2013</b>	<ul style="list-style-type: none"> <li>to apply anew for the Corporation's business permit for the <b>year 2013</b> for its new office in Mandaue City and the succeeding years thereafter with the local government unit where the Corporation is operating its new office.</li> </ul>
	<ul style="list-style-type: none"> <li>to enter into contract of lease over properties located at SAMA Apartment, Insular Village, Lanang, Davao City.</li> </ul>
	<ul style="list-style-type: none"> <li>to enter into a Memorandum of Understanding with the <b>METROPOLITAN CEBU WATER DISTRICT</b> for the adoption of a 5-hectares of watershed area in connection with the Tree Growing Project of the Foundation for the City of Cebu.</li> </ul>
	<ul style="list-style-type: none"> <li>to participate in the bidding of <b>SUPPLY AND DELIVERY OF OIL-BASED FUEL TO SPUG POWER PLANTS AND BARGES for January to December 2014</b>, that if awarded the tender shall enter into a contract with the <b>National Power Corporation</b>.</li> </ul>
	<ul style="list-style-type: none"> <li>to process the renewal of its vehicle registration for Toyota Vios with Plate No. LGM 550 with the <b>Land Transportation Office (LTO)</b> of the Davao Regional Office, Davao City.</li> </ul>
	<ul style="list-style-type: none"> <li>to apply for the registration of its trailer tankers with the <b>Land Transportation Office (LTO)</b> of Davao Regional Office, Davao City.</li> </ul>
<b>5 Nov 2013</b>	<ul style="list-style-type: none"> <li>in connection with the established accounts of the <b>Corporation</b> with the <b>UNITED COCONUT PLANTERS BANK</b> (the "<b>Bank</b>"), with office address at UCPB Building, Makati Avenue, Makati City, that: The <b>Corporation</b> obtained with the <b>Bank</b> the following accommodations: <ul style="list-style-type: none"> <li><b>DOMESTIC BILLS PURCHASE / DOMESTIC BILLS PURCHASE-MANAGER'S CHECK LINE</b> in the aggregate principal amount of <b>TWENTY FIVE MILLION PESOS (P25,000,000.00)</b> Philippine Currency;</li> <li><b>OMNIBUS LINE</b> in the aggregate principal amount of <b>FOUR HUNDRED MILLION PESOS (P400,000,000.00)</b>, Philippine Currency or its foreign currency equivalent;</li> <li>as well as the temporary excesses or permanent increases or case-to-case availment/s thereon as may be approved by the said <b>Bank</b> from time to time, under such terms and conditions as the <b>Bank</b> may require; and</li> <li><b>TERM LOAN</b> in the aggregate principal amount of <b>ONE HUNDRED MILLION PESOS (P100,000,000.00)</b>, Philippine Currency,</li> <li>The <b>Corporation</b> be, as it is hereby, authorized to assign, pledge and/or mortgage its corporate properties in favor of the Bank as security for the said accommodations.</li> <li>The <b>Corporation</b> be, as it is hereby, authorized to obtain a <b>MORTGAGE PARTICIPATION CERTIFICATE</b> in favor of the <b>Bank</b> issued pursuant to a <b>MORTGAGE TRUST INDENTURE</b> with Land Bank of the Philippines at 167% coverage to secure the <b>Corporation's</b> accommodation in the form of <b>TERM LOAN</b> with the <b>Bank</b>.</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>to enter into a Deed of Exchange and Waiver/Quitclaim in favor of <b>AUTOCIRCULO CORPORATION</b> over the following described motor vehicle, viz:; PEUGEOT 3008 2.0 ALLURE BIANCA WHITE MN- PSARH0210DYZD4038126 SN- VF30URHHADS009867 CS# VT0611</li> <li>to authorize and empower its Chief Corporate Counsel and Chief Compliance Officer, <b>RAMON EDISON C. BATACAN</b>, to represent, transact and negotiate in behalf of said Corporation and to further execute, sign and deliver any or all documents and instruments to implement the foregoing authority.</li> </ul>

27 Nov 2013	<ul style="list-style-type: none"> <li>to authorize the Corporation to redeem the Perpetual Preferred Shares issued last September 20, 2010 in accordance with the Agreement executed thereat; to issue a second tranche of Perpetual Preferred Shares for purposes of redeeming the first issuance as described in the preceding paragraph at terms and conditions management may deem fit; to authorize the Corporation to appoint PentaCapital Investment, Inc. to be its lead and issue Manager.</li> </ul>
5 Dec 2013	<ul style="list-style-type: none"> <li>Approval of the payment of cash dividend at the rate of 11.5% per annum exclusively for its Preferred Shares holders; that the aforementioned cash dividends for the Company's Preferred shares shall be payable on December 21, 2013; that the payment of the aforesaid dividends for the Preferred shares shall be implemented and paid through Banco de Oro Unibank, Inc. – Trust and Investment Group, the Company's Stock Transfer Agent.</li> </ul>
	<ul style="list-style-type: none"> <li>to open and maintain a [X] Peso, [ X ] Dollar, [ ] Savings, [X] Current Account(s) and [ ] Time Deposit with <b>UNION BANK OF THE PHILIPPINES</b>, ("the BANK"); and , to authorize the Corporation to borrow, apply for, negotiate and/or secure a loan and/or other credit accommodations and facilities from the bank in the principal aggregate amount of <b>PESOS: NINE HUNDRED NINETY FIVE MILLION AND 00/100 (Php995,000,000.00)</b> as well as temporary excesses or permanent increases thereon as may be approved by the Bank from time to time; to obtain additional loans, or credit facilities and accommodations for such amounts as may be determined by the authorized signatories herein and approved by the Bank.</li> </ul>
	<ul style="list-style-type: none"> <li>to open and maintain deposit accounts and/or trust accounts with the <b>PHILIPPINE BANK OF COMMUNICATIONS</b> (hereinafter referred to as the "Bank") _____Branch, or any other branch of the Bank where it shall requir</li> </ul>
	<ul style="list-style-type: none"> <li><b>Corporate Authority to Deal with Philippine Bank of Communications</b>  "RESOLVED, that the Corporation be authorized as it is hereby authorized to: <ol style="list-style-type: none"> <li>Avail of loans/credit facilities.</li> <li>Allow Phoenix Petroleum Philippines, Inc. to use the line and other credit facilities granted and/or to be granted by the Philippine Bank of Communications to the Corporation;</li> <li>Act as surety for the various loans granted or to be granted by Philippine Bank of Communications to Phoenix Petroleum Philippines, Inc.;</li> <li>Enter into any contract or agreement for the purchase or sale of any currency;</li> <li>Deal in financial derivatives transactions including but not limited to forward contracts, swaps, options and the like, both in local and foreign currency, covering currency, interest rate and credit risks, with the Bank;</li> <li>Sell and assign its receivables to the PHILIPPINE BANK OF COMMUNICATIONS pursuant to its Trade Financing of Receivables facility with the same;</li> </ol> up to the principal amount of <b>PESOS: FIVE HUNDRED MILLION (PHP500,000,000.00)</b> Philippine Currency or the equivalent of said amount or any portion thereof in foreign currency; <ul style="list-style-type: none"> <li>to enter into any contract for the renewal, substitution, extension, increase, amendment, conversion or revival of its own loan/credit facilities/Trade financing facility and the said loan accommodation granted to Phoenix Petroleum Philippines, Inc.</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>to authorize the Corporation to assign, transfer, and convey unto <b>Subic Petroleum Trading and Transport Phils., Inc. (SPTT)</b> all rights, obligations and responsibilities of its Supply Agreement and Terminalling Services with Cebu Pacific Air specifically pertaining to Subic operations only upon the latter's consent; to authorize, Rita Ros and/or John Yap to execute, deliver and sign all instruments, documents necessary to implement the foregoing authority."</li> </ul>
	<ul style="list-style-type: none"> <li>to apply, execute, sign, negotiate, deliver, and obtain for and on behalf of the Corporation, the Application for Bond/Performance Bond/Surety Bond and Guarantee/Warranty Bond and any other papers relative thereto issued by any Bonding/Insurance Company duly accredited with the Supreme Court as required by the 2011 NLRC Rules of Procedure in relation to the case of <b>"Heirs Of Mr. Ray Sison Inocencio Represented By His Wife, Mrs. Dalisay Blanca Inocencio vs. Phoenix Petroleum Philippines, Inc., Mr. Dennis Uy (President), And Asian Life &amp; General Assurance Corporation"</b>, Case No. NLRC-NCR-01-01646-13, including its appellate stages, in connection with the requirements of the client's bond.</li> </ul>
19 Dec 2013	<ul style="list-style-type: none"> <li>to offer and issue up to Five Hundred Million Peso-Denominated Preferred Shares to Qualified Buyers under Section 10.1 (l) of the Securities Regulation Code ('SRC') and by way of private placement to not more than nineteen (19) non-Qualified Buyers under Section 10.1 (k) of the SRC (the 'Issue'), under the following terms and conditions:</li> </ul>

	<b>Issuer</b>	Phoenix Petroleum Philippines, Inc. (the "Company")
	<b>Issue Manager and Underwriter</b>	PentaCapital Investment Corporation
	<b>The Issue</b>	Five Hundred Million Pesos (P500,000,000.00) worth of cumulative, nonvoting (except as specifically provided by law), non-participating, non-convertible Peso-denominated Perpetual Preferred Shares (the "Preferred Shares").  The Preferred Shares shall not enjoy any pre-emptive rights over all share issuances of the Company.
	<b>Par Value</b>	One Peso (P1.00) per share
	<b>Issue Price</b>	The Preferred Shares will be issued at One Hundred Pesos (P100.00) per share
<b>2 Jan 2014</b>	<ul style="list-style-type: none"> <li>to participate in the <b>bidding of Supply of Fuels Requirements to Manila International Airport Authority (MIAA)</b>; and in connection therewith hereby appoint its <b>Assistant Vice President for Commercial Sales-Luzon, JOSELITO G. DE JESUS</b>.</li> </ul>	
	<ul style="list-style-type: none"> <li>to negotiate and obtain with <b>LAND BANK OF THE PHILIPPINES (LBP)</b> for a <b>renewal</b> of its DP/DA/OA/LC/TR Line in the amount of <b>ONE BILLION PESOS (P1,000,000,000.00 billion)</b>; and to negotiate for the renewal without change of its DBPL in the amount of <b>FIFTY MILLION PESOS (P50,000,000.00)</b> and the establishment of Standby LC in the principal amount of <b>US\$ 7.50 Million</b> (or P330 Million based on its peso equivalent of US\$1=P44.00), wherein the Standby LC shall also be usable as DP/DA/OA/LC/TR Line up to a maximum amount of P300 Million, as the need arises; wherein the DP/DA/OA/LC/TR and Standby LC shall be secured by among others, Trust Receipts on Goods.</li> </ul>	
<b>7 Jan 2014</b>	<ul style="list-style-type: none"> <li>to apply, execute, sign, negotiate, deliver, and obtain for and on behalf of the Corporation, the Application for Bond/Performance Bond/Surety Bond and Guarantee/Warranty Bond and any other papers relative thereto issued by any Bonding/Insurance Company duly accredited with the Supreme Court as required by the 2011 NLRC Rules of Procedure in relation to the case of <b>"Heirs Of Mr. Ray Sison Inocencio Represented By His Wife, Mrs. Dalisay Blanca Inocencio vs. Phoenix Petroleum Philippines, Inc., Mr. Dennis Uy (President), And Asian Life &amp; General Assurance Corporation"</b>, Case No. NLRC-NCR-01-01646-13, including its appellate stages, in connection with the requirements of the client's bond.</li> </ul>	
<b>29 Jan 2014</b>	<ul style="list-style-type: none"> <li>Proposed Authority to Enter into Forex and other Derivative Swap Facility with reputable Financial Institutions               <ul style="list-style-type: none"> <li>a) Proposed Authority to Enter into Fuel Hedging</li> <li>b) Proposed Approval of Declaration of Dividends (Cash and/or Stock)</li> <li>c) Proposed Annual Stockholders Meeting on 07 March 2014 and Record Date of 13 Feb 2013</li> </ul> </li> </ul>	

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## **ANNEX B**

# **MANAGEMENT REPORT**

## **I. BRIEF DESCRIPTION OF THE GENERAL NATURE AND SCOPE OF THE BUSINESS OF THE REGISTRANT AND ITS SUBSIDIARIES**

### **1. Business Description**

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the “Company” or “PPPI”, interchangeably) was incorporated in the Philippines on May 8, 2002 under its original name of “OILINK MINDANAO DISTRIBUTION, INC.” On 11 January 2004, the Company amended its Articles of Incorporation changing its name from Oilink Mindanao Distribution, Inc. to Davao Oil Terminal Services Corp. On August 7, 2006, the Philippine Securities and Exchange Commission approved the Amended Articles of Incorporation of the Company changing its name from Davao Oil Terminal Services Corp. to “P-H-O-E-N-I-X Petroleum Philippines, Inc.”. The Company is 43% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI) and 22% owned by Udenna Management & Resources Corp. (UMRC), companies organized in the Philippines.

The Company is registered with the Board of Investments (BOI) since November 16, 2005 then as a New Industry Participant with New Investment in storage, marketing and distribution of petroleum products under Republic Act (RA) 8479 (Downstream Oil Industry Deregulation Act of 1998). Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investment Code of 1987. Under its registration, the Company is also entitled to certain tax and non-tax incentives to include Income Tax Holiday (ITH) for five (5) years from November 16, 2005.

The Company likewise registered with the BOI in 2010 and 2012 as a new industry participant with new investments in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Deregulation Act) for its storage tanks in various locations. Under these registrations, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

The Company’s transactions relating to the BOI registered investments entitled it to certain tax and non-tax incentives. Details of the registrations are as follows:

<b>Location of Project</b>	<b>Date of Registration</b>	<b>Income Tax Holiday Period</b>	<b>Income Tax Holiday Expiry</b>
Calaca, Batangas	February 26, 2010	5 years	February 25, 2015
Davao Expansion	May 14, 2010	5 years	May 13, 2015
Zamboanga	November 25, 2010	5 years	November 24, 2015
Bacolod City	May 10, 2012	5 Years	May 09, 2017
Cagayan de Oro City	May 10, 2012	5 Years	May 09, 2017

On July 11, 2007, the Company went public, making available twenty-five percent (25%) of its total outstanding shares. The Company thus became the first petroleum company to list in the Philippine Stock Exchange (PSE) after the enactment of the Republic Act (RA) 8479 in 1998. The aforementioned law encourages petroleum companies to be listed with the PSE.

The Company's operations consist of Trading, Terminaling and Hauling Services. Under Trading, the Company offers its refined petroleum products (including Jet A1) and lubricants to retailers and commercial/industrial customers. As of December 31, 2012 has a total of 300 service stations, where eighty-eight (88) service stations are located in Luzon, twenty-one (21) in Visayas and one hundred ninety-one (191) in Mindanao. The retail service stations are classified as Company-Owned, Company-Dealer-Operated (CODO) or Dealer-Owned, Dealer-Operated (DODO). As of December 31, 2013, the Company has a total of 368 service stations with 112 service stations located in Luzon, 47 in the Visayas and 209 in Mindanao.

The Company's Terminaling and Hauling Services involves the leasing of storage space in its terminal depot, hauling and into-plane services (hauling of Jet A1 fuels to airports and refueling of aircraft) in Davao, Cagayan de Oro, General Santos City, Cotabato City, Ozamis City, Pagadian City and Zamboanga City. Since 2008, Cebu Air designated the Company as its exclusive logistics partner in all its Mindanao operations.

### **Subsidiaries:**

At present, the Company has five (5) wholly-owned subsidiaries, namely:

- **P-h-o-e-n-i-x Global Mercantile, Inc.** ("PGMI") was incorporated on July 31, 2006. It was previously engaged in the manufacture, production and creation of all kinds of motor, and all other transportation lubricants, fluids and additives of all kinds and other petroleum products purposely for motor vehicles and other transportation. PGMI temporarily ceased its operation and is currently dormant.
- **PFL Petroleum Management Inc.** ("PFL or PPMI") was incorporated on January 31, 2007 and is currently engaged in the management of the three retail service stations which are being used as training sites and stations for prospective dealers.
- **Phoenix Petroterminals & Industrial Park Corp. (PPIPC)** Formerly *Bacnotan Industrial Park Corporation (BIPC)* is

engaged in real estate development. PPIPC was registered with the SEC on March 7, 1996. PPIPC is also registered with the Housing and Land Use Regulatory Board (HLURB) under Executive Order No. 648 and was granted a license to sell parcels of land on March 31, 2000 covering 25.4 hectares for Phase 1 of the Phoenix Petroterminals & Industrial Park (formerly Batangas Union Industrial Park) ("PPIP") located at Km. 117, National Highway, Calaca, Batangas. PPIPC owns, manages and develops the PPIP, which occupies 94 hectares and is situated within three Calaca barangays of Salong, Puting Bato West and Lumbang Calzada and has its own port facilities. PPIPC was granted a permit to operate permanent and non-commercial port by the Philippine Ports Authority on April 6, 1999 until the expiration date of the Foreshore Lease Contract on July 22, 2022.

- **Subic Petroleum Trading and Transport Phils., Inc. (SPTT)** was registered with the SEC on February 20, 2007 and is engaged in the buying and selling, supply and distribution, importation and exportation, and the storage and delivery of all types of petroleum for industrial, marine, aviation and automotive use. It does not carry any inventory at any given time. SPTT is duly registered with Subic Bay Metropolitan Authority ("SBMA") and was issued the Certificate of Registration and Tax Exemption on 01 June 2012, which is effective until 31 May 2013 and renewable by SPTT. It is classified as a Subic Bay Freeport Enterprise for the purpose of and with permit to operate the business of engaging in the business of importation, warehousing, transshipment, export, distribution of liquor, wines and spirits, tobacco and cigarettes and general merchandise and commodities such as but not limited to groceries, canned goods and pre-paid cards; convenience store for selling and distribution of gasoline and other petroleum products and other liberalized items.
- **Chelsea Shipping Corporation (CSC)** was incorporated in the Philippines on July 07, 2006 and started operations on January 1, 2007. It is engaged in maritime trade through conveying, carrying, loading, transporting, discharging, and storing petroleum products, goods and merchandise of every kind, over waterways in the Philippines and in the Asia-Pacific region. CSC has 10 vessels in its fleet, two of which serve the regional trade route (Taiwan to Philippines). Chelsea owns the largest Philippine-registered oil tanker "M/T Chelsea Thelma" with 9366 GRT. With a total fleet size of 19,561 GRT, Chelsea is among the top 5 major petroleum tanker owners in the country.

## 2. Directors and Officers

(a) The incumbent members of the Board of Directors and the executive officers of the Company are as follows:

Office	Name	Age	Citizenship
<b>Directors</b>			
Chairman	Domingo T. Uy	67	Filipino
Director/President and Chief Executive Officer	Dennis A. Uy	40	Filipino
Director/Vice President/Treasurer	Jose Manuel R. Quimson	65	Filipino
Director/Chief Operating Officer	Romeo B. De Guzman	64	Filipino
Corporate Secretary/Asst. Vice President for Corporate Legal	Socorro T. Ermac Cabreros	48	Filipino
Director	J.V. Emmanuel A. de Dios	49	Filipino
Director/Chief Finance Officer	Joseph John L. Ong	54	Filipino
Director	Paul G. Dominguez		Filipino
Director	Cherylyn C. Uy	34	Filipino
Independent Director	Justice (Ret.) Consuelo Ynares-Santiago	73	Filipino
Independent Director	Monico V. Jacob	68	Filipino

### Other Executive Officers

Chief Compliance Officer/Chief Corporate Counsel	Ramon Edison C. Batacan	55	Filipino
Vice President for Finance	Chryss Alfonsus V. Damuy	40	Filipino
Vice President for Corporate Affairs, Business Development and Security	Alan Raymond T. Zorrilla	44	Filipino
Vice President for Sales Mindanao	Edgardo A. Alerta	58	Filipino
Asst. Vice President for Retail Sales-South Luzon	Jose Victor L. Cruz	53	Filipino
Asst. Vice President for Retail Sales-North Luzon	Edwin M. Jose	54	Filipino
Assistant Vice President for Retail Sales-Mindanao	Jose Roel C. Cruz	46	Filipino

Assistant Vice President for Commercial Sales- Luzon	Joselito G. De Jesus	58	Filipino
Asst. Vice President for Treasury	Reynaldo A. Phala	47	Filipino
Assistant Vice-President for Engineering, Operations and Logistics	William M. Azarcon	67	Filipino
Assistant Vice President for Credit and Collections	Rebecca Pilar C. Caterio	42	Filipino
Asst. Vice President for Supply	Maria Rita A. Ros	54	Filipino
Asst. Corporate Secretary	Gigi Q. Fuensalida	37	Filipino

### **Directors**

The members of the Board of Directors of the Company are elected during the annual stockholders' meeting to hold office until the next succeeding annual stockholders' meeting and until their successors have been appointed or elected and qualified. The following is the list of the incumbent members of the Board of Directors, and their business experiences during the past five (5) years:

#### **Domingo T. Uy** **Chairman**

Domingo T. Uy, Filipino, 67 years old, is a co-founder and has been a member of the Board of Directors of the Company since 2002. Mr. Uy was elected Chairman of the Board of Directors of the Company on February 15, 2007. He is also a Director of Granland Resources Corporation, a corporation involved in real estate development. Mr. Uy is actively involved in socio-civic programs and is a Director of the Philippine National Red Cross, Davao Chapter. He is also the Past President of the Davao City Sta. Ana Lions Club and the Kang Ha Uy Association - Davao Chapter.

#### **Dennis A. Uy** **Director, President and Chief Executive Officer**

Mr. Dennis A. Uy, Filipino, 40 years old, is the founder of the Company and has served as President and Chief Executive Officer since inception. He is the Chairman and President of Phoenix Petroleum Holdings, Inc., the holding company of the Company, and Udenna Corporation, the ultimate parent company. The subsidiaries of the Company are Chelsea Shipping Corp., Phoenix Petroterminals & Industrial Park Corp., Subic Petroleum Trading & Transport Philippines, Inc., PFL Petroleum Management, and Phoenix Global Mercantile, Inc.

Among the subsidiaries of Udenna Corporation are Udenna Management & Resources Corp, One Subic Power, Global Synergy Trade and Distribution Corp., Udenna Development Corporation, Value Leases, Inc., Udenna Environmental Solutions, and Udenna Energy Corporation. Mr. Uy is also Chairman of F2 Logistics, Phoenix Philippines Foundation, and Udenna Foundation He is a member of the Young Presidents Organization - Philippine chapter and the Philippine Business for Social Progress. Mr. Uy is the Honorary Consul of Kazakhstan to the Philippines since November 2011. He is a graduate of De La Salle University with a degree in Business Management.

**Romeo B. De Guzman**  
**Director, Chief Operating Officer**

Romeo B. De Guzman, Filipino, 64 years old, was elected Director of the Company in 2009. He is Chief Operating Officer of the Company, bringing with him 35 years of outstanding experience in the oil industry. Before joining the Company, he was with Pilipinas Shell Petroleum Corporation, where he was Vice President for External Affairs for Asia Pacific and a member of the Board of Directors up to Dec. 2006. He was with the said company holding various management and executive positions. He also worked with Getty Oil Philippines Inc. for 10 years, prior to joining Pilipinas Shell. He carries with him a Marketing Management and an MBA degree from San Sebastian College – Manila.

**Jose Manuel R. Quimson**  
**Director**

Jose Manuel R. Quimson, Filipino, 65 years old, has been a Director of the Company since February 15, 2007. He is concurrently the General Manager of Phoenix Petroterminals & Industrial Park Corp and the Chief Operating Officer of Chelsea Shipping Corp. Mr. Quimson is a member of the Board of Directors of the Udenna Corporation and its subsidiaries. Previously, he was President of Petrotrade Philippines, Inc. a company providing bunkering services to international vessels. Mr. Quimson has more than 30 years of work experience in the shipping industry.

**Socorro T. Ermac-Cabreros**  
**Director, AVP for Corporate Legal and Corporate Secretary**

Socorro T. Ermac-Cabreros, Filipino, 48 years old, was elected Director and appointed Corporate Secretary on February 15, 2007. She is concurrently Asst. Vice President for Corporate Legal of the Company. . Prior to joining the Company, she was a Legal Counsel of Philippine National Bank in Davao City. She has worked for the

government such as Office of the Ombudsman for Mindanao and later as Prosecutor for the Province of Davao del Norte after engaging in the private practice of law. She finished her law degree at the Ateneo de Davao University College of Law. She is the immediate past President for the Davao City Chapter of the Integrated Bar of the Philippines.

**Atty. J.V. Emmanuel A. De Dios**  
**Director**

J.V. Emmanuel A. De Dios, Filipino, 49 years old, was elected Independent Director of the Company on February 15, 2007 and regular director on March 7, 2008. He is the CEO of GE Philippines, and prior to that was President and CEO of Nido Petroleum Pty Ltd., an Australian Stock Exchange-listed oil and gas company. He was Managing Director of Merritt Advisory Partners, Inc. and was a member of the Board of Directors of Davies Energy Systems, Inc. He also served as Chairman of the Board of the Philippine National Oil Company Exploration Corporation and was former Undersecretary of the Philippine Department of Energy. Atty. De Dios obtained his Master of Laws degree from Harvard Law School and completed his Bachelor of Laws at the Ateneo School of Law.

**Joseph John L. Ong**  
**Director**

Joseph John L. Ong, Filipino, 54 years old, married, is the Chief Finance Officer of the Company. Prior to his employment in the Company, he spent almost ten (10) years at Primeworld Digital Systems, Inc. (Pacific Internet Phils.) initially as Vice President and CFO and eventually as Executive Vice President – Operations and Chief Finance Officer from 2008 - 2009. He also worked for twelve (12) years with Ginebra San Miguel, Inc. (then known as La Tondena Distillers, Inc.), then the country's 2<sup>nd</sup> largest beverage company and a listed subsidiary of San Miguel Corporation. He was its Vice President – Treasury from 1995 – 1999, at which time he headed the team that took the company public in 1994 and was primarily responsible for institutional-investor relations. Prior to the San Miguel Group, he held various positions at the Bank of the Philippine Islands & Ayala Investment & Development Corp. (before it merged with BPI) from 1980-1986. He received his Bachelor of Science in Commerce from De La Salle University in 1980.

**Paul Dominguez**  
**Director**

Paul Dominguez was Presidential Assistant for Mindanao and Chairman of the Mindanao Economic Development Council (MEDCo)

during the term of President Fidel V. Ramos, tasked to oversee efforts towards accelerating development in Southern Philippines. After serving in the Ramos administration, Mr. Dominguez became the Mindanao representative to the World Trade Organization - General Tariffs and ASEAN Free Trade Area (WTO-AFTA) Philippine Advisory Commission, Honorary Chairman of the Mindanao Business Council, and Country Director for the Philippines in the Board of Directors of the BIMP-East ASEAN Business Council. Mr. Dominguez was appointed by President Gloria Macapagal-Arroyo as Presidential Adviser for Regional Development in January 2001, and in April 2002 as Senior Consultant for Mindanao. He also served as the Special Envoy to Brunei Darussalam, Indonesia and Malaysia. Mr. Dominguez started his corporate career in 1971 with the Davao Light and Power Co. In 1974, he joined the Lapanday Agricultural Development Corp., a major agribusiness firm in Mindanao, as Assistant General Manager. He continued his involvement in agribusiness with the Sarangani Agricultural Company where he served as Executive Vice President from 1979 to 1985. From 1985 to 1992, he was President of C. Alcantara and Sons, Inc. a leading wood manufacturing company in Mindanao. Mr. Dominguez currently serves as director of several Philippine corporations. He previously served on the Advisory Board for Southeast Asia of Colonial Insurance Co. and Commonwealth Bank of Australia.

**Cherylyn C. Uy**  
**Director**

Ms. Cherylyn Chiong-Uy, 34 years old, is a graduate of Business and Finance from Ateneo de Davao University. Ms. Uy is one of the pioneers/incorporators of Udenna Corporation, a corporation composed of 17 subsidiaries which are divided into two (2) groups, the petroleum and non petroleum group. She is the Corporate Treasurer of Udenna Corporation. Ms. Uy is also one of the Executive Directors of Phoenix Philippines Foundation, Inc., the corporate social responsibility arm of the Company. Ms. Uy is the Corporate Treasurer of Udenna Management and Resources Corporation and Chelsea Shipping Corp.

**Consuelo Ynares-Santiago**  
**Independent Director**

Consuelo Ynares-Santiago, Filipino, 73 years old, is a Retired Justice of the Philippine Supreme Court. Justice Santiago (Ret) is currently an independent director of Anchor Insurance Brokerage Corp., a leading insurance brokerage company based in New York, USA and SMC Global Power Holdings, Inc., one of the country's leading power company which is the power generation unit of the country's largest beverage, food and packaging industry, San Miguel Corporation. She is also a Consultant of various respectable government offices such as Office of Vice-President Jejomar C. Binay, Office of Senate President

Juan Ponce-Enrile and Philippine Judicial Academy and a Chair Advisory Council of the Office of Alternative Dispute Resolution under the Department of Justice. She earned her Law Degree at the University of the Philippines. After admitted to the bar, she started her career as a Legal Officer of Securities and Exchange Commission (SEC). After 5 years of legal practice, she decided to enter the Judiciary and spent 36 years of her career as Municipal Judge, Metropolitan Trial Court judge, Regional trial Court Judge, Associate Justice of Court of Appeals and became an Associate Justice of the highest court of the country, the Supreme Court. During her time in the Supreme Court, she joined various committees, one of those was House of Representative Electoral tribunal (HRET) as Chairperson, and a member of Presidential Electoral Tribunal. She was also a Bar Examiner of Labor Law and Social Legislation during the 1996 Bar Examination and Taxation Law on 1998 Bar Examination.

**Monico V. Jacob**  
**Independent Director**

Monico V. Jacob, 68 years old, has been Independent Director of the Company since March 7, 2008. He is President and Chief Executive Officer of the STI Education Systems Holdings, Inc., a publicly listed company; of STI Education Services Group, Inc.; and of West Negros University. He is also the Chairman of Philplans First, Inc., a pre-need company; of Philippine Life Financial, Inc., a life insurance company, and of Republic Surety and Insurance Co., a non-life insurance Company. He likewise sits as an independent director of Jollibee Foods, Inc., Century Properties, Lopez Holdings, Inc. and 2GO Shipping. He sits as Director of Asian Terminals, Inc., Philhealthcare Systems, Inc, an HMO, Philippine Women's University and IAcademy.

**Directorships in Other Reporting Companies**

The following are directorships held by the directors and executive officers in other reporting companies during the last five (5) years:

<b>Name of Director</b>	<b>Name of Reporting Company</b>	<b>Position Held</b>
Consuel Ynares Santiago		
Monico V. Jacob	Jollibee Foods Corporation Century Properties Lopez Holdings, Inc. 2GO Shipping	Independent Director

### Period of Directorship in the Company

<u>Name</u>	<u>Period of Service</u>	<u>Term of Office</u>
Dennis A. Uy	since incorporation to present	1 year
Domingo T. Uy	since incorporation to present	1 year
Socorro T. Ermac-Cabrerros	2006 to present (except 2009, 2010)	1 year
Romeo B. De Guzman	since 2009 to present	1 year
Jose Manuel R. Quimson	2007 to present	1 year
J.V. Emmanuel De Dios	2007 to present	1 year
Cherylyn C. Uy	2004 to 2006, 2013 to present	1 year
Paul G. Dominguez	2013 to present	1 year
Joseph John L. Ong	2013 to present	1 year
Monico V. Jacob	2008 to present	1 year
Consuelo Ynares Santiago	2013 to present	1 year

### Executive Officers

The following is a list of other executive officers and their business experiences during the past five (5) years:

**Chryss Alfonsus V. Damuy**, Filipino, 40 years old, is the Treasurer and the Vice-President for Finance of the Company. Prior to his employment with the Company, he was the Controller of Lapanday Foods Corporation and held various positions in its subsidiaries including the Fresh Asia Produce as Accounting Manager and the Mindanao Fresh Produce Services Corporation as Assistant Accounting Manager. He also worked as Chief Accountant of the Regional Educators Multi-purpose Cooperative and as its Branch Officer. Mr. Damuy started his professional career as College Instructor of the Holy Cross of Davao College where as a dean's lister, he earned his Bachelor of Science Degree in Accountancy in 1997. Mr. Damuy is a Certified Public Accountant.

**Ramon Edison C. Batacan**, Filipino, 55 years old, was appointed Chief Corporate Counsel and concurrently Chief Compliance Officer of the Company in 2013. He is founder and currently Managing Partner of BM&V Law Firm. He served as member of the Board of Regents of the University of Southeastern Philippines (USEP) and currently director of the Rizal Memorial Colleges. He was past president [2001-2003] of the Integrated Bar of the Philippines, Davao City Chapter and past governor [2007-2009] of the IBP-Eastern Mindanao Region. He is also currently a faculty of the Ateneo de Davao University College of Law handling Property, Negotiable Instruments Law and Law of Natural Resources and Environmental Law. Atty. Batacan graduated with the degree in Bachelor of Science in Mechanical Engineering (BSME) at the University of Mindanao (UM) in 1979. He earned his masters degree in Business Administration (MBA) at the University of Southeastern Philippines (USEP) in 1986. He earned his law degree at the Ateneo de Davao University College of Law in 1990, *cum laude* and was admitted to the Philippine Bar in 1991.

**Alan Raymond T. Zorrilla**, Filipino, 44 years of age, is the Vice President for External Affairs, Business Development, and Security of the Company. Prior to his employment with the Company, he was Chief Legal Counsel of the Unioil Group of Companies where he headed the Legal, Human Resources, and Administrative Departments. He also served as Director for Freeport Services Corporation, a 100% subsidiary of Subic Bay Metropolitan Authority and was once a Legal Consultant of the Department of Environment and Natural Resources. Atty. Zorrilla was engaged in the litigation practice with Pangilinan Britanico Sarmiento and Franco Law Offices before he entered corporate practice. He formerly worked as Corporate Legal Counsel of publicly-listed Fil-Estate Group of Companies under its Litigation and Labor Department. Atty. Zorrilla completed his law studies at the San Beda College of Law in 1994 and was admitted to the Philippine Bar in 1995. He also took up his masteral studies at the Ateneo Graduate School of Business. He is an Army Reservist and a concurrent Commander (Lt. Colonel) of the Philippine Coast Guard Auxiliary.

**Edgardo A. Alerta**, Filipino, 58 years old, is the Vice President for Sales Mindanao. He handles both Commercial and Retail Sales in Mindanao. Mr. Alerta, who is a licensed Mechanical Engineer, has more than 25 years work experience in the energy and petroleum industries from the government and multinational corporations. Prior to joining the Company, he worked with Pilipinas Shell Petroleum Corporation for 15 years where he started as a Marketing Sales Executive and later progressed to District Sales Manager. He also worked as a Technical Services Engineer of Getty Oil Philippines and was an Energy Examiner of the Department of Energy. He holds two degrees in Engineering: Bachelor of Science Degrees Major in Mechanical Engineering and Electrical Engineering from the Cebu Institute of Technology. He was the Councilor in the Municipality of Matanao, Province of Davao del Sur for 12 years until June 30, 2013.

**Jose Roel C. Cruz**, Filipino, 45 years old, is the Assistant Vice President for Retail Sales-Mindanao. Mr. Cruz has more than 25 years of experience in the oil industry covering retail sales, retail operations, and marketing, as well as stints in the Human Resources department when he was with Pilipinas Shell Petroleum Corporation from 1988 to 2011. The positions he handled were Retail Territory Manager, Standards Assistant, Cards Marketing Manager, Business Analyst, Recruitment Manager. Mr. Cruz set up a personal business before joining Phoenix Petroleum Philippines, Inc. in November 2011. He started as a Retail Manager for the Luzon area and was subsequently promoted to his current position in August 2012. He took his college

course in De La Salle University, and is a licensed Electronics and Communications Engineer.

**Joselito G. de Jesus**, Filipino, 59 years old, is the Assistant Vice-President for Commercial Sales-Luzon. Prior to joining the Company, Mr. de Jesus was the Assistant Vice-President for Reseller Trade of Petron Corporation. He joined the oil industry in late 1970's when became a Corporate Planning Analyst, then later on Corporate planning Manager/Coordinator, of the Philippine National Oil Company (PNOC). Mr. de Jesus also became a Manager in the Corporate Planning Department of PNOC Shipping and Transport Corporation and at the same time, he was also an assistant to the Chairman of PNOC. In the late 90's Mr. de Jesus transferred to Petron Corporation and stayed with the said Company for almost 17 years. He is a graduate of Bachelor of Science in Business Administration Major in Marketing and Finance from University of the Philippines and a Master of Business Administration of Ateneo Graduate School of Business.

**Jose Victor L. Cruz**, Filipino, 52 years old, is currently the Assistant Vice President for Retail Sales-South Luzon. Mr. Cruz has more than twenty-five (25) years of experience in the oil industry covering retail, commercial, lubricants sales, international business (aviation and shipping for Chevron and Texaco), marketing and distribution, and corporate affairs. Prior to joining the Company in 2010, Mr. Cruz was Vice President for Retail Network Operations of Flying V in 2008 before he was promoted to Chief Operating Officer in 2009. He was COO of Citadel Commercial, Inc. from 2001-2002 before he ventured into private enterprise. He held various positions in Caltex Philippines Inc. from 1983 up to 1991 when he handled CPI's International Business. Eventually, Mr. Cruz was appointed Executive Assistant – Marketing Commercial in 1992. In 1994, he held the position of District Manager – Luzon South Commercial and in 1996, as DM – Luzon Retail. Mr. Cruz completed his MBA curriculum at the De La Salle University. He is a graduate of B.S. Industrial Management Engineering, Minor in Mechanical Engineering and is a Professional Industrial Engineer under the Philippine Institute of Industrial Engineers.

**Edwin M. Jose**, Filipino, 54 years old is the Assistant Vice President for Retail Sales-North Luzon. Mr. Jose has logged more than 29 years in petroleum industry, with exposure in Retail, Commercial, LPG and Corporate Planning and Logistics of Petron Corporation. Before joining Phoenix, his Petron career started in Corporate Planning and Logistics. In the Retail Trade, he handled positions from Area Sales Executive, Retail Network Development and Sales Development Manager. After Retail, he was assigned to the Liquefied Petroleum Gas business where he handled the retail, commercial and independent refiller business for the entire Luzon area and his breakthrough programs in LPG such as the “one number delivery system” , the “80-20 sales project” and pioneering LPG metering for commercial accounts such as Jollibee, among others were reasons

why Petron Gasul effectively captured market leadership in the retail sector. He was then given assignment as Government Accounts Manager handling the National Power Corp and other Independent Power Producers, US and Phil. Military. His last position in Petron is District Manager for Metro Manila under Reseller Trade. After his stint with Petron, he set up franchise of two 7-11 convenience stores that are still operational to date. He is an Industrial Engineering degree holder from the University of Sto. Tomas, and an MBA candidate at Ateneo de Manila University.

**William M. Azarcon**, Filipino, 66 years old is currently the Asst. Vice President for Operational Engineering and Logistics. Mr. Azarcon has twenty-six (26) years experience in the oil industry, covering engineering operations, retail and distribution of bulk & packed products nationwide. Mr. Azarcon used to work for Pilipinas Shell Petroleum Corporation and served as Field Engineer in Operations nationwide constructing Depots & related facilities, i.e, jetties, submarine pipelines', bulk storage tanks among others. He likewise served as Head of Operations of North Luzon and transferred to Retail Engineering as Retail Engineering Manager nationwide. He also served as RVI (Retail Visual Identity) Manager. After retiring from Shell, Mr. Azarcon engaged in business as Retail Engineering Contractor of Shell. He holds a degree in Bachelor of Science in Mechanical Engineering from Mapua.

**Rebecca Pilar C. Caterio**, Filipino, 41 years old, is currently the Assistant Vice President for Credit and Collection of the Company. Previously, she was the Controller of Lapanday Packaging Inc., a company engaged in the manufacturing of cartons and in the production of fresh pineapple and vegetable. She was also the Accounting Manager of Fresh Asia Produce Company International Corporation, a company which is also owned by the Lapanday Group and is primarily engaged in the trading and marketing of bananas. Ms. Caterio started her professional career with the SGV & Co. as a Staff Auditor. She is a Certified Public Accountant and a member of the Philippine Institute of Certified Public Accountants (PICPA) since 1993. Ms. Caterio holds a Bachelor of Science Degree in Commerce, Major in Accounting from the Ateneo De Zamboanga.

**Reynaldo A. Phala** Filipino, 47 years old, is the Assistant Vice President for Treasury. He joined the Company in 2008 as its Credit and Collection Manager. Before joining the Company, he led a progressive banking career for 17 years, which he started at UCPB. He also worked with the Department of Trade and Industry as Municipal Trade and Industry Officer for a year. He graduated from Mindanao State University-General Santos City with the degree Bachelor of Science in Civil Engineering as a consistent academic scholar and

passed the licensure examinations for Civil Engineers in May 1989. He recently finished his Master in Business Administration (MBA) under the Regis Program at the Ateneo Graduate School of Business.

**Maria Rita A. Ros**, Filipino, 54 years old, is currently the Assistant Vice President for Supply. Ms. Ros has more than thirty (30) years of experience in the oil industry covering materials management, supply chain management, production planning, imports-exports, warehousing and logistics. She held various positions in Petron Corporation from 1981 up to 2011 when she handled Biofuels and Special Projects, and Supply Optimization. Ms. Ros set up a personal business before joining Phoenix Petroleum Philippines, Inc. in November 2013. She is a graduate of B.S. Chemical Engineering from the University of the Philippines, and is a licensed Chemical Engineer, and took up Basic Management at the Asian Institute of Management.

**Gigi Q. Fuensalida**, Filipino, 37 years old, is presently the Assistant Corporate Secretary of the Company. Prior to her employment with the Company, she was one of the Senior Associates of the Villaraza Cruz Marcelo and Angangco Law Office. For six years, Atty. Fuensalida specialized in Civil, Commercial and Criminal Litigation wherein she developed strategies for complex litigation and actively participated in the prosecution and defense of criminal cases before the regular trial courts, quasi-judicial bodies and the appellate courts. Atty. Fuensalida holds a degree in Bachelor of Arts Major in Political Science from the Ateneo de Manila University. She further obtained her Juris Doctor degree from the same institution and graduated with honors in 2002. Atty. Fuensalida is a member of the Integrated Bar of the Philippines since 2003.

#### Period of Service in the Company

<u>Name</u>	<u>Period of Service</u>
Joseph John L. Ong	November 3, 2010 to present
Socorro Ermac Cabrerros	2006 to present
Edgardo A. Alerta	2006 to present
Alberto D. Alcid	2006 to present
Chryss Alfonsus V. Damuy	2008 to present
Rebecca Pilar C. Caterio	2005 to present
Reynaldo A. Phala	2008 to present
Alan Raymond T. Zorilla	2009 to present
Gigi Q. Fuensalida	2008 to present
John Henry C, Yap	2009 to present
William M. Azarcon	2009 to present
Jose Victor L. Cruz	May 11, 2010 to present
Joselito G. De Jesus	March 15, 2011 to present

Jose Roel C. Cruz  
 Edwin M. Jose  
 Ma. Rita A. Ros

Nov. 15, 2011 to present  
 March 1, 2013 to present  
 November 1, 2013 to present

## II. Market price of and Dividends on required by Part V of Annex C, as amended

### (1) Market Information

The Company's common shares were listed and traded at the Philippine Stock Exchange ("PSE") starting on July 11, 2007. The high and low sale prices of each period for years 2012 and 2013 are hereunder shown:

Year 2012

Period	Highest Close		Lowest Close	
	Price	Date	Price	Date
First Quarter	14.88	Mar-12	9.50	Mar-30
Second Quarter	9.74	Apr-10	8.09	Jun-15
Third Quarter	8.95	Jul -16	8.09	Sep-28
Fourth Quarter	9.29	Dec-06	8.05	Oct-08

Year 2013

Period	Highest Close		Lowest Close	
	Price	Date	Price	Date
First Quarter	11.08	Feb-7	8.89	Jan-10
Second Quarter	10.60	Apr-12	5.00	Jun-25
Third Quarter	6.19	Jul-12	5.00	Aug-29
Fourth Quarter	5.57	Oct-23	4.35	Dec-18

As of December 31, 2013, the market capitalization of the Company, based on the closing price of Php 4.50, was approximately Php6,429,497,544.00.

### (2) Holders

#### Top 20 Stockholders\* As of December 31, 2013

#	NAME OF STOCKHOLDERS	OUTSTANDING & ISSUED SHARES
1	PHOENIX PETROLEUM HOLDINGS INC.	588,945,630
2	UDENNA MANAGEMENT & RESOURCES CORP.	254,921,743
3	PCD NOMINEE CORPORATION (FILIPINO)	230,473,801
4	PCD NOMINEE CORPORATION - (NON-FILIPINO)	209,745,916

5	UDENNA CORPORATION (FORMERLY: UDENNA HOLDINGS CORPORATION)	127,568,767
6	JOSELITO R. RAMOS	4,812,600
7	DENNIS A. UY	3,991,802
8	CAROLINE G. TAOJO	2,801,500
9	UDENCO CORPORATION	1,614,787
10	DENNIS A. UY&/OR CHERYLYN C. UY	1,098,060
11	DOMINGO U. LIM	900,000
12	F.YAP SEC., INC. -PH	835,000
13	DOMINGO T. UY	646,919
14	F.YAP SEC., INC. -AP	548,000
15	F.YAP SEC., INC. -AT	400,000
16	JOSE MANUEL ROQUE QUIMSON	354,930
17	EDGARDO ALVARADO ALERTA	318,505
18	ROMEO B. MOLANO	258,262
19	ZENAIDA CHAN UY	149,058
20	REBECCA PILAR CLARIDAD CATERIO	148,453
21	SOCORRO ERMAC CABREROS	103,307

\* disclosure based on records of the Stock Transfer Agent, BDO-Equitable Trust Co., as of 31 December 2013.

### **(3) Dividends**

The Company's dividend policy is to declare at least 30% of its prior year's net income as dividends, whether in stock or in cash or a combination of both, payable out of its unrestricted retained earnings subject to statutory limitations.

Each holder of a common share is entitled to such dividends as may be declared in accordance with the Company's dividend policy. The Company's current dividend policy entitles holders of common shares to receive dividends based on the recommendation of the Board of Directors. Such recommendation will consider such factors as operating expenses, implementation of business plans, and working capital among other factors.

The Board of Directors approved last May 8, 2008 and duly ratified by the stockholders on July 16, 2008, a 30% stock dividend for stockholders of record as of July 11, 2008 to be issued from the Company's unrestricted retained earnings. Distribution date was August 6, 2008. Number of shares issued was 43,000,198 valued at Par Value of ₱ 1.00 per share or a total of ₱ 43,000,198.00.

On April 12, 2010, the Company's Board of Directors approved a ₱ 0.05 per share cash dividend. Details are as follows:

Ex-Date

July 12, 2010

Record Date	July 15, 2010
Payment Date	August 10, 2010
Total Amount	₱ 13,656,430

On July 15, 2010, the Company's stockholders ratified and approved a 40% stock dividend (or a total of 107,664,266 shares), valued at par of ₱1.00 per share and distributed on October 20, 2010 to all stockholders of record as of September 24, 2010.

In the year 2011, the Board of Directors declared Cash Dividend for Common Shareholders with details as follows:

Dividend Rate	Php 0.10/share
Ex Date	March 22, 2011
Record Date	March 25, 2011
Payment Date	April 20, 2011
Total Amount Distributed	₱ 37,682,494

For the year 2010, the Board of Directors declared and distributed total of Php 43,125,000.00 dividends for Preferred Stockholders. Preferred shares issuance by the Company are not listed and traded in the Philippine Stock Exchange.

On March 15, 2011, a 30% Stock Dividend was declared by the Board of Directors and subsequently approved by the Stockholders during the March 11, 2011 Annual Stockholders' meeting. All stockholders of record as of April 8, 2011 were entitled to said stock dividends which were distributable on May 6, 2011. Total distributed for this dividend is 113,047,475 shares.

In year 2011, the Board of Directors declared and approved the payment of cash dividend at the rate of 11.5% per annum to all preferred shareholders totaling to ₱ 57,500,000.00.

On 08 February 2012, the Company's Board of Directors approved a ₱ 0.10 per share cash dividend. Details are as follows:

Ex-Date	April 23, 2012
Record Date	March 23, 2012
Payment Date	April 23, 2012
Total Amount	48,987,241.50

In March 8, 2012, the Company's stockholders ratified and approved the declaration of 50% stock dividend (or a total of 244,936,203 shares) to all stockholders of record as of March 28, 2012 with payment date on April 26, 2012.

In year 2012, the Board of Directors declared and approved the payment of cash dividend at the rate of 11.5% per annum to all preferred shareholders totaling to Php57,500,00.00.

For the year 2013, the Board of Directors on January 24, 2013 approved the declaration of 30% stock dividends which was duly ratified and

approved by the stockholders during the Annual Stockholder's Meeting on March 08, 2013. All stockholders of record as of May 15, 2013 were entitled to said stock dividends which were paid out on June 10, 2013, with ex-date of June 05, 2013. Stock dividends totaled to 329,717,232 common shares.

On the same date of January 24, 2013, the Board of Directors likewise declared cash dividends of Php0.10 per share to all stockholders of record as of April 11, 2013 and paid out on May 8, 2013.

**(4) Recent Sale of Unregistered Securities or Exempt Securities Including Recent Issuance of Securities Constituting an Exempt Transaction**

The Company has not sold or transferred any securities that is not registered under the Code nor did it issue any additional securities in exchange for any properties, services and other securities.

**III. DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE.**

Corporate powers and governance of the Company is exercised by the Board of Directors which consists of eleven (11) members, two (2) of whom are independent directors. As a matter of policy and based on good corporate practice, unless a special meeting is called upon for a specific purpose, the Board regularly meets every quarter wherein which the relevant corporate issues may be raised for discussion and voted by the members of the Board.

Last March 07, 2008, during the regular meeting of the Board, the Manual of Corporate Governance which incorporated the best practices was approved and adopted to establish the principles of good corporate governance for the entire Corporation. The adoption of the new Manual of Corporate Governance replaces the old manual of corporate governance prescribed by the SEC which was then observed and followed by the Company. Moreover, the adoption of the new Manual now complies with the SEC requirement that before assuming office, a director must attend a seminar on corporate governance conducted by a duly recognized government or private institution.

Last January 30, 2008, the Company through the Corporate Secretary has submitted a document certifying the attendance of the members of the Board of Directors in all regular meetings for the year 2007 as well as the compliance to the provisions of the Manual of Corporate Governance prescribed by the SEC as adopted by the Company.

March 03, 2009 was the submission and compliance with the Certification of the Company's Compliance Officer to the extent of compliance with its Manual for Corporate Governance.

As part of the Corporate Governance, the Group works on the early disclosures of quarterly and annual reports tot SEC and PSE.

Internal Audit Group of the Company conducts regular internal audit review to both processes, compliance to Company policies and procedures and risk analysis. Reports and recommendations submitted for board review and actions.

The Company plans on constantly improving corporate governance. The Company recognizes that corporate governance is not just a set of rules but a way of life, not just for the directors and officers of the Company but for every single employee. The Company intends to continuously re-evaluate its existing policies, implement reforms, emulate and improve on the best existing corporate practices of industry leaders in order to improve the quality of life of every employee, maximize returns to shareholders, to improve its relationship with business partners, and strengthen and widen the reach of its corporate social responsibility programs.

**AS PART OF THE CORPORATE GOVERNANCE, THE COMPANY WILL PROVIDE WITHOUT CHARGE, UPON WRITTEN REQUEST TO THE CORPORATE SECRETARY OF THE COMPANY AT THE ADDRESS LISTED ON THE COVER PAGE OF THIS INFORMATION STATEMENT, A COPY OF THE COMPANY'S ANNUAL REPORT ON SEC FORM 17-A, INCLUDING THE FINANCIAL STATEMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013. HOWEVER, UPON THE DISCRETION OF THE MANAGEMENT OF THE COMPANY, A CHARGE MAY BE MADE FOR EXHIBITS REQUESTED, WHICH CHARGE SHALL BE LIMITED TO REASONABLE EXPENSES THAT MAY BE INCURRED BY THE COMPANY IN FURNISHING SUCH EXHIBITS.**

**IV. THIRD (3<sup>RD</sup>) QUARTER FINANCIAL STATEMENTS AS OF SEPT. 30, 2013  
(SEC FORM 17-Q)**

(Please see attached **Annex "B-1"**)

# COVER SHEET

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S.E.C. Registration Number

P	H	O	E	N	I	X		P	E	T	R	O	L	E	U	M			
P	H	I	L	I	P	P	I	N	E	S		I	N	C.					

**P-H-O-E-N-I-X Petroleum Philippines, Inc.**

(Company's Full Name)

S	T	E	L	L	A		H	I	Z	O	N		R	E	Y	E	S		R	D.
B	O.		P	A	M	P	A	N	G	A		L	A	N	A	N	G			
D	A	V	A	O		C	I	T	Y											

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

Dennis A. Uy
--------------

Contact Person

(082) 233-0168
----------------

Company Telephone Number

1	2
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Month

3	1
---	---

Day

Fiscal Year Ending

**SEC Form 17-Q**

FORM TYPE

3
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Month

**last Friday**

XX
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Day

Annual Meeting

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Secondary License Type, if applicable

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Dept. Requiring this Doc

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

--	--	--	--	--

Domestic

--	--	--	--	--

Foreign

To be accomplished by SEC Personnel Concerned

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File Number

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Document I.D.

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Cashier

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Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q, AS AMENDED

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

1. For the quarterly period ended: September 30, 2013
2. SEC identification number: A200207283
3. BIR Tax Identification No. 006-036-274
4. Exact name of issuer as specified in its charter **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**
5. Province, country or other jurisdiction of incorporation or organization Davao City, Philippines.
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office: Stella Hizon Reyes Road, Bo.  
Pampanga, Lanang, Davao City  
Postal Code: 8000
8. Issuer's telephone number, including area code: (082) 233-0168
9. Former name, former address and former fiscal year, if changed since last report: Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each class	Number of Shares Outstanding
COMMON	1,428,777,232.00
PREFERRED	5,000,000.00

Amount of Debt Outstanding as of September 30, 2013: Php 13,765,676,902.00

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

Yes [ ☒ ] No [ ☐ ]

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

Philippine Stock Exchange

12. Check whether the issuer has:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 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 twelve (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 ninety (90) days:

Yes [ ☒ ] No [ ☐ ]

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**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2013 & AUDITED DECEMBER 31, 2012**  
*(Amounts in Philippine Pesos)*

	Note	September 30, 2013	December 31, 2012
		Unaudited	Audited
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	812,435,618	438,510,937
Trade and other receivables - net	7	4,164,678,245	3,557,002,879
Inventories	8	4,359,854,424	3,688,759,676
Land held for sale and land development costs	9	501,254,304	502,030,559
Due from related parties		11,373,732	8,300,000
Restricted deposits	10	124,700,449	82,694,029
Input value-added tax - net		364,636,552	392,968,622
Prepayments and other current assets	11	441,973,043	296,735,523
Total Current Assets		<b>10,780,906,366</b>	<b>8,967,002,225</b>
<b>NON-CURRENT ASSETS</b>			
Instalment contract receivable		-	-
Land held for future development	13	295,824,300	289,078,227
Property and equipment - net	12	7,880,232,274	6,998,785,817
Goodwill	15	84,516,663	84,516,663
Other non-current assets	14	803,041,602	167,807,348
Total Non-current Assets		<b>9,063,614,840</b>	<b>7,540,188,055</b>
<b>TOTAL ASSETS</b>		<b>19,844,521,206</b>	<b>16,507,190,280</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	16	4,117,334,840	4,119,347,152
Trade and other payables	17	3,725,932,462	1,547,105,184
Due to related parties		6,956,518	85,551,745
Total Current Liabilities		<b>7,850,223,820</b>	<b>5,752,004,081</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	16	5,363,665,567	5,795,974,645
Deferred tax liabilities - net		176,348,019	114,004,950
Other non-current liabilities	18	375,439,496	344,755,293
Total Non-current Liabilities		<b>5,915,453,082</b>	<b>6,254,734,888</b>
Total Liabilities		<b>13,765,676,902</b>	<b>12,006,738,969</b>
<b>EQUITY</b>			
Common stock	25	1,365,777,232	906,059,416
Preferred stock	25	5,000,000	5,000,000
Additional paid-in capital	25	3,109,616,774	2,051,723,794
Revaluation reserves	25	290,087,376	294,152,102
Other reserves		(622,952,239)	(622,952,239)
Retained earnings	25	1,931,315,161	1,866,468,238
Total Equity		<b>6,078,844,304</b>	<b>4,500,451,311</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>19,844,521,206</b>	<b>16,507,190,280</b>

*See Notes to Consolidated Financial Statements.*

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2013 & 2012**  
*(Amounts in Philippine Pesos)*

		YTD (January-September) Unaudited		3rd Quarter (July-September) Unaudited	
	Notes	2013	2012	2013	2012
REVENUES					
Sale of goods - NET		31,462,585,706	24,584,436,890	9,753,972,426	7,810,181,442
Fuel service, storage income and other revenue		201,481,514	357,029,192	78,067,360	107,858,393
		31,664,067,220	24,941,466,082	9,832,039,786	7,918,039,835
COST AND EXPENSES					
Cost of sales and services	19	29,284,423,139	22,967,866,265	9,056,465,083	7,128,740,162
Selling and administrative expenses	20	1,369,128,054	1,086,336,424	461,580,127	407,206,063
		30,653,551,193	24,054,202,689	9,518,045,210	7,535,946,225
OTHER INCOME (CHARGES)					
Finance costs - NET		(416,392,261)	(344,588,615)	(130,820,345)	(115,434,260)
Others		(35,744,330)	(12,547,350)	(8,982,666)	(8,130,365)
		(452,136,591)	(357,135,965)	(139,803,011)	(123,564,625)
PROFIT BEFORE TAX					
		558,379,436	530,127,428	174,191,565	258,528,985
TAX INCOME (EXPENSE)					
		(17,083,755)	(14,377,741)	(5,163,064)	(6,124,311)
NET PROFIT					
		541,295,681	515,749,687	169,028,501	252,404,674

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**'FOR THE PERIOD ENDED SEPTEMBER 30, 2013 & 2012**  
*(Amounts in Philippine Pesos)*

	<i>Notes</i>	<b>YEAR TO DATE (January-September) Unaudited</b>	
		<b>2013</b>	<b>2012</b>
<b>COMMON STOCK</b>	25		
Balance at beginning of year		906,059,416	489,872,215
Stock dividends		329,717,816	244,936,202
Additional/Adjustment during the period		-	171,250,999
Subscribed Common Stock		130,000,000	-
<b>Balance at end of year</b>		<b>1,365,777,232</b>	<b>906,059,416</b>
<b>PREFERRED STOCK</b>	25		
Balance at beginning of year		5,000,000	5,000,000
Issuance during the year		-	-
<b>Balance at end of year</b>		<b>5,000,000</b>	<b>5,000,000</b>
<b>ADDITIONAL PAID-IN CAPITAL</b>	25		
Balance at beginning of year		2,051,723,794	2,051,723,794
Additions during the year		1,057,892,980	200,000
<b>Balance at end of year</b>		<b>3,109,616,774</b>	<b>2,051,923,794</b>
<b>Revaluation reserves</b>	25	<b>290,087,376</b>	<b>516,685,971</b>
<b>Other reserves</b>		<b>(622,952,239)</b>	<b>(622,952,239)</b>
<b>RETAINED EARNINGS</b>			
Balance at beginning of year		1,866,468,238	1,542,110,416
Net profit		541,295,681	585,393,291
Stock dividends	25	(329,717,816)	(244,936,202)
Cash Dividends	25	(146,730,942)	(92,112,242)
<b>Balance at end of year</b>		<b>1,931,315,161</b>	<b>1,790,455,263</b>
<b>TOTAL EQUITY</b>		<b>6,078,844,304</b>	<b>4,647,172,205</b>

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2013 & 2012**  
*(Amounts in Philippine Pesos)*

		(As of Period Ended September)	
		Unaudited	
	<i>Notes</i>	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		558,379,436	530,127,429
Adjustments for:			
Interest expense		420,990,344	374,822,907
Depreciation and amortization	12	360,659,595	210,163,849
Impairment losses (Bad Debts)		-	-
Changes in goodwill		-	-
Interest income		(4,598,083)	(4,219,984)
Operating profit before working capital changes		1,335,431,291	1,110,894,201
Decrease (increase) in:			
Trade and other receivables		(607,675,366)	232,045,904
Inventories		(671,094,748)	(568,366,238)
Land held for sale and land development costs		776,255	-
Restricted deposits		(42,006,420)	(12,567,934)
Input value-added tax		28,332,070	(192,005,395)
Prepayment and other current assets		(145,237,520)	(36,411,508)
Installment contract receivable		-	9,002,788
Decrease (Increase) in deferred tax assets			154,068
Increase (decrease) in trade and other payables		2,178,827,278	(1,655,490,459)
Cash generated from (used in) operations		741,921,550	(2,223,638,774)
Cash paid for income taxes		(17,083,755)	(14,377,741)
Net Cash From (Used in) Operating Activities		2,060,269,086	(1,127,122,314)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net acquisitions of property and equipment	12	(1,242,106,051)	(831,488,184)
Decrease (increase) in other non-current assets		(635,234,254)	(30,326,139)
Collections from related parties		(3,073,732)	16,070,912
Increase (decrease) in land held for future development		(6,746,074)	(6,322,442)
Advances to related parties		(78,595,227)	-
Interest received		4,598,083	4,219,984
Net Cash Used in Investing Activities		(1,961,157,255)	(847,845,869)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase in interest-bearing loans and borrowings		(434,321,390)	2,308,232,338
Interest paid		(420,990,344)	(374,822,907)
Increase (decrease) in other non-current liabilities		93,027,272	(79,014,511)
Increase (decrease) in revaluation reserves		(4,064,726)	-
Repayments to related parties	24	-	-
Payments of cash dividends	25	(146,730,942)	(92,112,243)
Additional/ Adjustment during the year	25	-	200,200
Proceeds from issuance of shares of stock	25	1,187,893,511	-
Net Cash From Financing Activities		274,813,381	1,762,482,877
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>373,925,212</b>	<b>(212,485,306)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	6	<b>438,510,937</b>	<b>924,008,515</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	6	<b>812,436,149</b>	<b>711,523,209</b>

*See Notes to Consolidated Financial Statements.*

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013 AND DECEMBER 31, 2012**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the “Company” or “Phoenix”, interchangeably) was incorporated and organized under the laws of the Republic of the Philippines on May 8, 2002 under its original name of “Oilink Mindanao Distribution, Inc.” On 11 January 2004, the Company amended its Articles of Incorporation changing its name from Oilink Mindanao Distribution, Inc. to “Davao Oil Terminal Services Corp.” On August 7, 2006, the Philippine Securities and Exchange Commission (the “Commission”) approved the Amended Articles of Incorporation of the Company changing its name from Davao Oil Terminal Services Corp. to “P-H-O-E-N-I-X Petroleum Philippines, Inc.” The Company is 41.22% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company likewise incorporated and organized under the laws of the Republic of the Philippines.

The Company's storage tanks and facilities in Davao City were registered with the Board of Investments (BOI) effective November 16, 2005 as a New Industry Participant with New Investments in storage, marketing and distribution of petroleum products under Republic Act (RA) 8479 (Downstream Oil Industry Deregulation Act of 1998). Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investment Code of 1987. The Company is also entitled to certain tax and non-tax incentives to include Income Tax Holiday (ITH) for five (5) years from its registration.

The Company was also registered with the BOI on February 26, 2010 as New Industry Participant With New Investments in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Deregulation Act) for its storage tanks in various locations. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987. Like its previous registration, these storage tanks found in various locations are likewise entitled to tax and non-tax incentives, details of which are as follows:

<b>Location of Project</b>	<b>Date of Registration</b>	<b>Income Tax Holiday Period</b>	<b>Expiry</b>
Calaca, Batangas	February 26, 2010	5 years	February 25, 2015
Davao Expansion	May 14, 2010	5 years	May 13, 2015
Zamboanga	November 25, 2010	5 years	November 24, 2015
Phividec (CDO) Depot	May 10, 2012	5 years	09-May-2017
Bacolod Depot	May 10, 2012	5 years	09-May-2017

On July 11, 2007, the Company had its Initial Public Offering (IPO) with the Philippine Stock Exchange (the "Exchange"), making available twenty-five per cent (25%) of its total outstanding shares to the public. The Company, thus, became the first petroleum company to list in the Exchange after the enactment of the Republic Act (RA) 8479 in 1998. The aforementioned law encourages petroleum companies to be listed with the Exchange.

The Company's operations consist of Trading, Terminaling and Hauling Services. Under its trading operations, the Company offers its refined petroleum products (including Jet A1) and lubricants to retailers and commercial/industrial customers. The Company as of September 30, 2013 has a total of three hundred fifty-eight (358) service stations nationwide, broken down as follows: one hundred five (105) service stations in Luzon, forty five (45) in Visayas and two hundred eight (208) in Mindanao. As of September 30, 2013, there are a total of forty three (43) service stations under different stages of construction. The retail service stations are classified as Company-Owned, Company-Dealer-Operated (CODO) or Dealer-Owned, Dealer-Operated (DODO). Out of the three hundred forty-three (358) service stations, 134 or 37% are CODO and 224 or 63% are DODO.

On the other hand, the Company's terminaling and hauling services operations involve leasing of storage space in its terminal depot, hauling and into-plane services (hauling of Jet A1 fuels to airports and refueling of aircraft) in Davao City, Cagayan de Oro City, Butuan City, General Santos City, Cotabato City, Ozamis City, Pagadian City, Zamboanga City and Cebu City of its major client, Cebu Pacific Air. Starting 2008, Cebu Pacific designated the Company as its exclusive logistics partner in all its Mindanao operations.

#### **Subsidiaries:**

The Company holds 100% interests in the following subsidiaries as of September 30, 2013:

- **P-F-L Petroleum Management, Inc. (PPMI)**
- **P-H-O-E-N-I-X Global Mercantile, Inc. (PGMI)**
- **Phoenix Petroterminals & Industrial Park Corp. (PPIPC) (formerly Bacnotan Industrial Park Corporation)**
- **Subic Petroleum Trading and Transport Phils., Inc. (SPTT).**
- **Chelsea Shipping Corp. (CSC)**

All the subsidiaries were organized and incorporated under the laws of the Republic of the Philippines.

**PPMI** is primarily engaged in organizing, managing, administering, running and supervising the operations and marketing of various kinds of services-oriented companies such as petroleum service stations. PPMI was organized and registered on January 31, 2007. PPMI's maintains its business address at 26/F Fort Legend Towers, 3rd Ave. corner 31st Street, Bonifacio Global City, Taguig City, Metro Manila.

**PGMI** is primarily organized to engage in the manufacture, production and creation of all kinds of motor, and all other transportation lubricants, fluids and additives of all kinds and other petroleum products purposely for motor vehicles and other transportation. It was organized and registered on July 31, 2006. PGMI maintains its principal office at Stella Hizon Reyes Road, Barrio Pampanga, Davao City. PGMI has temporarily ceased its operation.

**PPIPC** is engaged in real estate development. Formerly known as the Bacnotan Industrial Park Corp., it was organized and registered on March 7, 1996 and subsequently 100% acquired by the Company on March 6, 2009. PPIPC is also registered with the Housing and Land Use Regulatory Board (HLURB) under Executive Order No. 648 and was granted a license to sell parcels of land on March 31, 2000 covering 25.4 hectares for Phase 1 of the Phoenix Petroterminal and Industrial Park (the Park). PPIPC owns, manages and develops the Park, which occupies 94 hectares of land and is situated within three (3) Calaca barangays of Salong, Puting Bato West and Lumbang Calzada, with its own port facilities. PPIPC was granted a permit to operate permanent and non-commercial port by the Philippine Ports Authority on April 6, 1999 until the expiration date of the Foreshore Lease Contract on July 22, 2022. PPIPC's principal place of business is in Metro Manila with registered business address at the 26th Floor, The Fort Legend Tower, 3rd Avenue corner 31st Street, Bonifacio Global City, Taguig City.

**SPTT** is engaged in the buying and selling, supply and distribution, importation and exportation, storage and delivery of all types of petroleum for industrial, marine, aviation and automotive use. It does not carry any inventory at any given time. SPTT is duly registered with Subic Bay Metropolitan Authority and was issued the Certificate of Registration and Tax Exemption on 01 June 2012, which is effective until 31 May 2013, subject to annual renewal by SPTT. It was organized and registered on February 20, 2007 but subsequently 100% acquired by the Company on January 13, 2012. The registered office of SPTT, which is also its principal place of business, is at Units 113 and 115 Subic International Hotel, Alpha Building, Rizal Highway, Subic Bay Freeport Zone, Zambales.

**CSC** is engaged in maritime trade through conveying, carrying, loading, transporting, discharging and storing of petroleum products, goods and merchandise of every kind, over waterways in the Philippines and in the Asia-Pacific region. It has 10 vessels in its fleet, two of which serve the regional trade route (Taiwan to Philippines. Chelsea owns the largest Philippine-registered oil tanker "M/T Chelsea Thelma" with 9366 GRT). With a total fleet size of 19,561 GRT, Chelsea is among the top 5 major petroleum tanker owners in the country. It was registered and organized on July 17, 2006 and started commercial operations on January 1, 2007. The Company acquired CSC on October 15, 2012. The registered office of the CSC which is also its principal place of business is located at Stella Hizon Reyes Road, Barrio Pampang, Davao City.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. These policies have been consistently applied through all the years presented, unless otherwise stated. For purposes of discussion, the term "Group" shall refer to the Company and all its wholly-owned subsidiaries described and enumerated in the foregoing paragraphs.

### ***2.1 Basis of Preparation of Consolidated Financial Statements***

#### ***(a) Statement of Compliance with Philippine Financial Reporting Standards***

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS is adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense. The measurement bases are more fully described in the accounting policies that follow.

*(b) Presentation of Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single consolidated statement of comprehensive income.

Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively or makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

*(c) Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine peso, the Group's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using its functional currency, the currency of the primary economic environment in which the Group operates.

## **2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS**

*(a) Amendments Effective in 2012 that are Relevant to the Group*

In 2012, the Group adopted the following amendments to PFRS that are relevant to the Company and effective for financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2012:

PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Transfer of Financial Assets
PAS 12 (Amendment)	:	Income Taxes – Deferred Tax: Recovery of Underlying Assets

Discussed below are the relevant information about these amended standards.

- (i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*.  
The amendment requires additional disclosures that will allow users of financial

statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety.

The Group did not transfer any financial asset involving this type of arrangement; hence, the amendment did not result in any significant change in the Group's disclosures in its consolidated financial statements.

- (ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset that arises from investment property measured at fair value under PAS 40, *Investment Property* should be determined on the basis that its carrying amount will be recovered through sale. The presumption is rebutted for depreciable investment property (e.g., building) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretation Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12 requiring that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment* should always be measured on a sale basis of the asset.

The amendment has no significant impact on the Group's consolidated financial statements as the Group's investment properties and land classified as property and equipment measured at fair value are taxable with the same rate regardless of whether these assets will be sold or used in operation.

(b) *Amendments Effective in 2012 that are not Relevant to the Group*

PFRS 1, *First-time Adoption of PFRS*, was amended to provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS consolidated financial statements or to present PFRS consolidated financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 **but is not relevant to the Group's consolidated financial statements**.

(c) *Amendments Effective Subsequent to 2012 but not Adopted Early*

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2012. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

- (i) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in

accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met.

The Group's management expects that this will change the current presentation of items in other comprehensive income (i.e., segregation of revaluation reserves on tankers under property and equipment). This however, will not affect the measurement or recognition of such items.

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;
- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

Currently, the Group is using the corridor approach and its unrecognized actuarial loss as of December 31, 2012 amounted to Php 12.1 million which will be retrospectively recognized as loss in other comprehensive income in 2013. (see Note 21).

(iii) Consolidation Standards

The Group is currently reviewing the impact on its consolidated financial statements of the following consolidation standards which will be effective from January 1, 2013:

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the broader concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.
- PFRS 12, *Disclosure of Interest in Other Entities*. This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Amendment), *Separate Financial Statements*. This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.
- PAS 28 (Amendment), *Investments in Associate and Joint Venture*. This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement*.

Subsequent to the issuance of the foregoing consolidation standards, the IASB made some changes to the transitional provisions in IFRS 10, IFRS 11 and IFRS 12, which were also adopted by the FRSC. The guidance confirms that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

- (iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32, and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position.

The Group has initially assessed that the adoption of the amendment will not have a significant impact on its consolidated financial statements.

- (v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards.

Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to assess the impact of the new standard on the Group's consolidated financial statements.

- (vi) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement.

The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

- (vii) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39 in its entirety. This chapter covers the classification and measurement of financial assets and financial liabilities and it deals with two measurement categories for financial assets: (1) amortized cost and (2) fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address certain application issues.

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the consolidated financial statements of the Group and it plans to conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (viii) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements,

*the following amendments are relevant to the Group but management does not expect a material impact on the Group's financial statements:*

- (a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for opening statement of financial position

If an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third statement of financial position.

Other than disclosure of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

- (b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory.

- (c) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

### **2.3 Basis of Consolidation**

The Group obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Company and its subsidiaries (see Note 1) after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate an impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting principles.

The Company accounts for its investments in subsidiaries as follows:

Subsidiaries are wholly-owned entities by the Company. Thence, the Company has the power to control the financial and operating policies of each of the subsidiaries. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date the Group obtains control until such time that such control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill (see Note 15). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain.

On the other hand, business combinations arising from transfers or acquisition of interests in entities that are under the common control of the shareholder that controls the Group are normally accounted for under the pooling-of-interests method and reflected in the financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities acquired are recognized in the Group's consolidated financial statements at the carrying amounts recognized previously. The difference between the consideration transferred and the net assets of the subsidiary acquired is

recognized as Other Reserves as part of the equity.

## **2.4 Financial Assets**

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and available-for-sale financial assets (AFS). Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

Detailed description of the loans and receivables category of financial assets relevant to the Group are as follows:

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.
- Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables, Due from Related Parties, Restricted Deposits (presented as part of Current Assets and part of Other Non-Current Assets in the consolidated statement of financial position), Installment Contract Receivables, and Refundable Rent Deposits and Hold-out Deposits (both presented as part of Other Non-Current Assets in the consolidated statement of financial position). Cash and cash equivalents are defined as cash on hand, savings and demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Costs or Finance Income in the consolidated statement of comprehensive income.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred.

## ***2.5 Inventories***

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. The cost of inventories include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

## ***2.6 Land Held for Sale and Land Development Costs***

Land held for sale and land development costs are valued at the lower of cost and net realizable value. Land held for sale and land development costs includes the cost of land and actual development costs incurred up to the end of reporting period. Interest incurred during the development of the project is capitalized (see Note 2.21).

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of developing and the estimated costs necessary to make the sale.

## ***2.7 Prepayments and Other Current Assets***

Prepayments and other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statement when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

## ***2.8 Land Held For Future Development***

Land held for future development is valued at the lower of cost and net realizable value. Cost includes purchase price and other costs directly attributable to the acquisition of land.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of developing and estimated costs necessary to make the sale.

## **2.9 Property and Equipment**

Land is stated at cost less any impairment in value. Tankers are measured at revalued amount less accumulated depreciation. All other property and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred, except for periodic dry docking costs performed at least every two years on the vessel which are capitalized (see Note 2.10).

Following initial recognition, tankers are carried at revalued amounts which represent fair values as determined by independent appraisers, less any subsequent accumulated depreciation and any accumulated impairment losses. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation surplus is recognized in other comprehensive income and credited to the Revaluation Reserves account in the consolidated statement of changes in equity. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in profit or loss. Annually, an amount from the Revaluation Reserves is transferred to Retained Earnings for the related depreciation relating to the revaluation increment.

Upon disposal of the revalued assets, amounts included in Revaluation Reserves is transferred to Retained Earnings.

Revaluations are performed at least every two years ensuring that the carrying amount does not materially differ from that which would be determined using fair value at the end of reporting period, unless circumstances require annual revaluation.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Tankers	30 years
Vessel equipment	5 years
Buildings, depot and pier facilities	5-25 years
Transportation and other equipment	1-10 years
Hauling and heavy equipment	1-5 years
Gasoline station equipment	1-5 years
Office furniture and equipment	1-5 years

Leasehold and land improvements are amortized over the terms of the related leases or the useful lives of the improvements, whichever is shorter.

Hauling and heavy equipment held under finance lease agreements (see Note 2.16) are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of lease, if shorter.

Construction in progress represents properties under construction and on-going major repair works and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.20). An account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

The residual values and estimated useful lives of properties and equipment are reviewed, and adjusted, if appropriate, at the end of each reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss the year the item is derecognized.

#### ***2.10 Dry Docking Costs***

Dry docking costs are considered major repairs that preserve the life of the vessel. As an industry practice, costs associated with dry docking are amortized over 24 months or until the next dry docking occurs, whichever comes earlier. When significant dry docking expenditures occur prior to their expiry of this period, any remaining unamortized balance of the original dry docking costs is expensed in the month of subsequent dry docking.

Amortization of dry docking costs starts only when the process has been completed and the related vessel is ready for use.

The carrying amount of dry docking costs, presented as part of the Other Non-current Asset account in the consolidated statement of financial position, is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.18).

#### ***2.11 Financial Liabilities***

Financial liabilities, which include Interest-bearing Loans and Borrowings, Trade and Other Payables, Due to Related Parties and Security Deposits (presented under Other Non-Current Liabilities in the consolidated statement of financial position), are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liability are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of comprehensive income.

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale)

are capitalized as part of the cost of such asset (see Note 2.20). All other interest related charges are recognized as an expense in the consolidated statement of comprehensive income under the caption Finance Costs.

Interest-bearing loans and borrowings are raised for support of long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables, due to related parties and security deposits are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Obligations under finance lease (included as part of Interest-bearing Loans and Borrowings) are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of minimum lease payments, at the inception of the lease (see Notes 2.16 and 27.5).

Dividend distributions to shareholders are recognized as financial liabilities upon declaration of dividends by the Company.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

## ***2.12 Offsetting Financial Instruments***

Financial assets and liabilities are offset and the resulting net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## ***2.13 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of

similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

## **2.14 Business Combinations**

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to income.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Under the pooling-of-interest method, similar accounts of the entities are combined on a line-by-line basis except for the equity accounts which were offset with the new shares issued by the new

entity in which the difference between the net assets received and the amount of the consideration issued (shares and cash) is accounted for as Other Reserves.

### **2.15 Revenue and Expense Recognition**

Revenue comprises revenue from sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding value-added tax (VAT), rebates and trade discounts.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, i.e. when the customer has acknowledged receipt of goods or when the customer has taken undisputed delivery of goods.
- (b) *Charter fees* – Revenue, which consists mainly of charter income arising from the charter hire of its tankers, is recognized based on the type of charter arrangement entered into, either under a time charter (TC) or a continuing voyage charter (CVC). Under a TC, revenue is recognized based on the terms of the contract [see Note 3.1(d)]. Under a CVC, revenue is recognized upon completion of the voyage; however, appropriate accrual of revenue is made at the end of the reporting period.
- (c) *Fuel service and other revenues and storage income* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. This account includes franchise income, which has minimal amount. In addition, this includes revenue arising from port and cargo handling services.
- (d) *Interest income* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.
- (e) *Rent income* – Revenue is recognized on a straight-line basis over the lease term.
- (f) *Port revenues* – Revenue is recognized when services are rendered.

Cost and expenses are recognized in the profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20).

The cost of real estate sold, if any, before the completion of the development is determined based on the actual costs incurred to date which include the cost of land plus estimated costs to complete the project development. The estimated expenditures for the development of sold real estate, as determined by project engineers, are charged to Cost of Sales and Services account in the consolidated statement of comprehensive income with a corresponding credit to accrued expenses presented under Trade and Other Payables account in the consolidated statement of

financial position. Effects of any revisions in the total project cost estimates are recognized in the year in which the changes become known.

## **2.16 Leases**

The Group accounts for its leases as follows:

### *(a) Group as Lessee*

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability

Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Finance lease obligations, net of finance charges, are included in Interest-bearing Loans and Borrowings account in the consolidated statement of financial position.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

### *(b) Group as Lessor*

Leases wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

## **2.17 Foreign Currency Transactions and Translations**

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income as part of income or loss from operations.

## **2.18      *Impairment of Non-financial Assets***

The Group's property and equipment and goodwill are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

## **2.19      *Employee Benefits***

### **(a)      *Post-employment Benefits***

Post-employment benefits are provided to employees through a defined benefit plan and defined contribution plan.

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets, if any, for funding the defined benefit plan have been acquired. Plan assets, if any, may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's post-employment benefit pension plan covers all regular

full-time employees.

The liability recognized in the consolidated statement of financial position for post-employment defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the end of reporting period less unrecognized actuarial losses. The DBO shall be calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in profit or loss, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

*(b) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

**2.20 Borrowing Costs**

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

## **2.21      *Income Taxes***

Tax income (expense) recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets, if any, are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred 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 provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

## **2.22      *Related Party Relationships and Transactions***

Related party transactions are transfer of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; and (c)

individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

### **2.23      *Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's strategic steering committee; its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8 is the same as those used in its consolidated financial statements, except that the following, if there is any, are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses; and,
- expenses relating to share-based payments.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

### **2.24      *Equity***

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves pertain to the revaluation increment and changes thereof (e.g. subsequent depreciation), net of tax, arising from the revaluation of the Group's tankers. Other reserves pertain to the difference between the Company's cost of investment and the net assets of CSC.

Deposits on future stock subscriptions include all amounts received for future stock subscriptions.

Treasury shares are stated at the cost of re-acquiring such shares irrespective of whether these are

acquired below or above par value.

Retained earnings include all current and prior period results of operations as disclosed in the profit or loss section of the consolidated statement of comprehensive income.

## **2.25      *Earnings per Share***

Basic earnings per share (EPS) is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

## **2.26      *Events After the Reporting Period***

Any post-year-end event that provides additional information about the Group's position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements.

Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

# **3.      SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

## **3.1      *Critical Management Judgments in Applying Accounting Policies***

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

### **(a)      *Distinction between Operating and Finance Leases***

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Certain hauling and heavy equipment are accounted for under finance lease.

(b) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.13 and relevant disclosure is presented in Note 27.

(c) *Qualifying Assets on Borrowing Costs*

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Determining if an asset is a qualifying asset will depend on the circumstances and requires the use of judgment in each case. In making judgment, the management takes into account its intention when it determines whether the asset is a qualifying asset and considers the facts and circumstances and uses its judgment to determine whether an asset takes a substantial period of time to get ready for its intended use or sale. Based on the facts and circumstances affecting the Group's qualifying asset, the management concludes that the Group's retail station, depot facilities and tankers are qualifying assets as the management assesses that it takes substantial period of time for the completion of those assets.

(d) *Revenue Recognition for TC Arrangements*

In determining the appropriate method to use in recognizing the Group's revenue from TC, management considers the following criteria: (1) whether the fulfilment of the arrangement is dependent on the use of a specific vessel; and, (2) whether the arrangement conveys a right to use the vessel. Management determined that if both criteria are met, the revenue should be recognized using the straight-line method over the term of the contract (see Note 2.15).

(e) *Functional Currency*

The Group has determined that its functional currency is the Philippine peso which is the functional currency of the primary economic environment in which the Group operates.

### **3.2 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) *Allowance for Impairment of Trade and Other Receivables Due from Related Parties*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7.

(b) *Determining Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amounts of inventories as presented in Note 8 is affected by price changes and action from the competitors. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

(c) *Determining Net Realizable Value of Land Held for Sale and Land Development Costs and Land Held for Future Development*

In determining the net realizable value of land held for sale and land development costs and land held for future development, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amounts of land held for sale and development costs and land held for future development are affected by price changes and demand from the target market segments. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments within the next financial year.

(d) *Useful Lives of Property and Equipment and Dry docking Costs*

The Group estimates the useful lives of properties and equipments and dry docking costs based on the period over which the assets are expected to be available for use. The estimated useful lives of properties and equipments are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment and dry docking costs are analyzed in Notes 12 and 14, respectively. Based on management's assessment as at September 30, 2013 and December 31, 2012, there is no change in the estimated useful lives of the property and equipment and dry docking costs during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Fair Value of Tankers*

In determining the fair value of the Group's tankers, the Group engages the services of professional and independent appraisers. The fair value is determined by reference to the market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the specific characteristics of the property (e.g. size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and value of the assets.

Based on management's review of the recorded fair value of the tankers as of September 30, 2013 and December 31, 2012, such fair value reasonably approximates the fair value based on the latest appraisal report or of those dates as determined by an independent appraisers (see Note 12.3).

(f) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at September 30, 2012 and December 31, 2012 will be fully utilized in the coming years. The carrying value of deferred tax assets as of September 30, 2013 and December 31, 2012 is disclosed in Note 23.

(g) *Liability for Land Development*

Obligations to complete development of real estate are based on actual costs and project estimates of contractors and Group's technical staff. These costs are reviewed at least annually and are updated if expectations differ from previous estimates. Liability to complete the project for sold units included in the determination of cost of sales are presented as part of accrued expenses under Trade and Other Payables account in the consolidated statements of financial position amounted to P1.0 million as of December 31, 2012. (see Note 17).

(h) *Retirement and Other Benefits*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21 and include, among others, discount rates and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 21.2.

(i) *Estimating Development Costs*

- (j) The accounting for real estate requires the use of estimates in determining costs and gross profit recognition. Cost of real estate sold includes estimated costs for future development. The development cost of the project is estimated by the Group's technical staff. At the end of reporting period, these estimates are reviewed and revised to reflect the current conditions, when necessary.

(k) *Impairment of Non-Financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to

discount such. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on the Group's non-financial assets in 2012.

#### **4. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarized in Note 5. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with the Company, in close cooperation with the BOD, and focuses on actively securing the Group's short-to-medium term cash flows by minimizing the exposure to financial markets.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

##### ***4.1 Market Risk***

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk which result from both its operating and investing activities.

##### ***(a) Foreign Currency Sensitivity***

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's sales to a certain customer and fuel importation, which are primarily denominated in U.S. dollars. The liability covering the importation is covered by letter of credits which is subsequently closed to Philippine peso trusts receipts (TRs). Further, the Group has a U.S. dollar loan from a certain bank which has been used to finance its capital expenditures (see Note 16). This however is hedged with a peso swap as part of the Company mitigation to foreign currency fluctuation risks. The Group also holds U.S. dollar-denominated cash and cash equivalents.

To further mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated financial assets and liabilities, translated into Philippine pesos at the closing rate follow:

**December 31, 2012**

Financial assets	<b>P 224,957,030</b>
Financial liabilities	<b>(<u>2,107,635,570</u> )</b>
Exposure	<b>(<u>P 1,882,696,540</u>)</b>

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in Philippine peso against U.S dollar exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	Reasonably Possible change in rate	Profit before tax	Effect in equity before tax
<b>2012</b>	<b>16.7%</b>	<b>P 314,410,322</b>	<b>P 220,087,225</b>

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

*(b) Interest Rate Sensitivity*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long term borrowings are therefore usually made at fixed rates. As at December 31, 2012, the Group is exposed to changes in market interest rates through its cash and cash equivalents and bank borrowings, which are subject to variable interest rates (see Notes 6 and 16). All other financial assets and liabilities have fixed rates.

The table below illustrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates of +/-1.82% in 2012, +/- 1.90% in 2011 and 1.90% in 2010 for Philippine peso and +/-88% in 2012, +/- 0.90% in 2011 and 0.90% in 2010 for U.S. dollar. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	<u>2012</u>
	<u>+182/88</u> <u>-182/88</u>
<b>Profit before tax</b>	<b>(P 28,254,605 ) P 28,254,605</b>

(c) *Market Price Risk*

The Group's market price risk arises from its purchases of fuels. It manages its risk arising from changes in market prices by monitoring the daily movement of the market price of fuels and to some extent, using forward and other similar contracts to manage the fluctuation of the fuel price.

## 4.2 *Credit Risk*

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the consolidated statements of financial position (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized below.

	<u>Notes</u>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Cash and			
Cash			
Equivalents	6	<b>Php 812,435,618</b>	Php 438,510,937
Trade and other			
Receivables -			
net	7	<b>4,164,678,245</b>	3,557,002,879
Due from Related			
Parties	24	<b>11,373,732</b>	8,300,000
Restricted Deposits	10,14	<b>124,700,449</b>	82,694,029
Refundable rent			
deposits and			
minimum lease			
payments	14	<b>123,715,832</b>	101,580,768
		<b>Php 5,236,903,876</b>	<b>Php 4,188,088,613</b>

None of the financial assets are secured by collateral or other credit enhancements.

The Group's management considers that all the above financial assets that are not impaired or past due for each reporting dates are of good credit quality.

(a) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are

reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of Php 0.5 million for every depositor per banking institution.

*(b) Trade and Other Receivables*

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good.

The Group has a Credit Committee which approves credit lines given to its customers. The Group's Credit and Collection Department, which regularly reports to the Credit Committee, continuously monitors customers' performance and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

Some of the unimpaired trade and other receivables are past due at the end of the reporting date. The age of financial assets past due but not impaired is as follows:

	<u>September 30, 2013</u>		<u>December 31, 2012</u>	
Not more than one month	Php	110,637,701	Php	49,229,451
More than one month but not more than two months		40,452,388		59,529,182
More than two months but not more than six months		38,271,831		26,448,069
More than six months but not more than one year		32,970,172		54,931,311
More than one year		44,787,662		37,288,853
	Php	<u>267,119,753</u>	Php	<u>277,426,866</u>

**4.3 Liquidity Risk Analysis**

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as

well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Group maintains cash and cash equivalents to meet its liquidity requirements for up to 60-day period. Excess cash are invested in time deposits. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As of September 30, 2013, the Group's liabilities have contractual maturities which are summarized as follows:

	<u>Current</u>		<u>Non-current</u>
	<u>Within</u>	<u>6 to 12</u>	<u>1 to 5</u>
	<u>6 months</u>	<u>months</u>	<u>years</u>
Interest-bearing loans and borrowings	P 4,111,928,334	P 5,406,506	P 5,363,665,565
Trade and other payables	3,581,462,871	144,469,591	-
Due to related parties	6,956,518	-	-
Security deposits and unearned rent			<u>351,909,033</u>
	<b><u>P 7,700,347,722</u></b>	<b><u>P 149,876,097</u></b>	<b><u>P 5,715,574,600</u></b>

This compares to the maturity of the Group's financial liabilities as of December 31, 2012 as presented below:

	<u>Current</u>		<u>Non-current</u>
	<u>Within</u>	<u>6 to 12</u>	<u>1 to 5</u>
	<u>6 months</u>	<u>months</u>	<u>years</u>
Interest-bearing loans and borrowings	P 3,251,292,811	P 868,054,341	P5,795,974,645
Trade and other payables	629,111,115	917,994,069	25,332,757
Due to related parties	45,299,380	40,252,365	-
Security deposits and unearned rent	-	-	<u>319,422,536</u>
	<b><u>P3,925,703,306</u></b>	<b><u>P1,826,300,775</u></b>	<b><u>P6,140,729,938</u></b>

The contractual maturities of the financial liabilities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

## 5. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and fair values of the categories of assets and liabilities presented in the consolidated statements of financial position are shown below:

	Notes	September 30, 2013		December 31, 2012	
		<u>Carrying Values</u>	<u>Fair Values</u>	<u>Carrying Values</u>	<u>Fair Values</u>
<b><i>Financial Assets</i></b>					
Loans and receivables:					
Cash and cash equivalents	6	P 812,435,618	P 812,435,618	P 438,510,937	P 438,510,937
Trade and other receivables - net	7	4,164,678,245	4,164,678,245	3,557,002,879	
3,557,002,879					
Due from related parties	24	11,373,732	11,373,732	8,300,000	8,300,000
Restricted deposits	10, 14	124,700,449	124,700,449	82,694,029	82,694,029
Refundable Deposits and deferred minimum lease payments	14	<u>123,715,832</u>	<u>123,715,832</u>	<u>101,580,768</u>	<u>101,580,768</u>
		<u>P5,236,903,876</u>	<u>P5,236,903,876</u>	<u>P4,188,088,613</u>	<u>P4,188,088,613</u>
<b><i>Financial Liabilities</i></b>					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	16	P9,481,000,407	P9,481,000,407	P9,915,321,797	P9,915,321,797
Trade and other payables	17	3,725,932,462	3,725,932,462	1,539,783,272	1,539,783,272
Due to related Parties		6,956,518	6,956,518	85,551,745	85,551,745
Security deposits and Unearned rent	18	<u>351,909,033</u>	<u>351,909,033</u>	<u>319,422,536</u>	<u>319,422,536</u>
		<u>P13,565,798,420</u>	<u>P13,565,798,420</u>	<u>P11,860,079,350</u>	<u>P11,860,079,350</u>

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of September 30, 2013 and December 31, 2012:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Cash on hand	P 4,829,701	P 5,124,365
Cash in banks	735,095,636	293,191,196
Short-term placements	<u>72,510,281</u>	<u>140,195,376</u>
	<u>P 812,435,618</u>	<u>P 438,510,937</u>

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates ranging from 0.03% to 3.00% per annum in all years presented. Short-term placements have maturity ranging from 7 to 90 days and earn effective interest ranging from 2.1% to 4.8% per annum in 2013 and 2012.

The balances of the cash on hand and in banks as of September 30, 2013 and December 31, 2012 exclude restricted cash amounting to P 123.7 million and P82.7 million, respectively, which are shown as Restricted Deposits account in the consolidated statements of financial position (see Notes 10 and 14). Such amounts are not available for the general use of the Group under the loan agreements (see Note 16.3).

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Trade receivables	P 3,445,267,187	P 2,650,377,099
Advances to suppliers	584,579,461	881,428,714
Non-trade receivables	252,432,377	189,816,532
Other receivables	<u>111,454,052</u>	<u>61,735,366</u>
	3,667,613,927	3,783,357,711
Allowance for impairment	( <u>229,054,832</u> )	( <u>226,354,832</u> )
	<u>P 4,164,678,245</u>	<u>P 3,557,002,879</u>

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade and other receivables, which are due from customers, were found to be impaired, hence, adequate amount of allowance for impairment has been recorded in 2013 and 2012. Impairment losses amounted to P 2.7 million and P37.9 million, in 2013 and 2012 respectively, and are presented as part of Finance Costs under the Other Income (Charges) account in the consolidated statements of comprehensive income.

A reconciliation of the allowance for impairment at the beginning and end of September 30, 2013 and December 31, 2012 is shown below:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Balance at beginning	P 226,354,832	P 188,503,775
Impairment loss during the year	<u>2,700,000</u>	<u>37,851,057</u>
Balance at end of year	<u>P 229,054,832</u>	<u>P 226,354,832</u>



Trade and other receivables do not bear any interest. All receivables are subject to credit risk exposure (see Note 4.2).

Other Receivables as of December 31, 2012 include Php 23.8 million partial claims from an insurance company related to an incident encountered by one of the Group's vessels.

The amount represents the costs of towing and repairs incurred for the vessel, net of the applicable deductible clause. In addition, this account includes Php 12.3 million as of December 31, 2012, worth of reimbursable costs incurred by the Group in relation to its TC agreement with certain third party.

Certain trade receivables amounting to Php 11.4 million as of December 31, 2012, were used as collateral to the Group's interest-bearing loans and borrowings (see Notes 16.3a and 16.3b).

The carrying value of trade and other receivables is considered a reasonable approximation of fair value (see Note 5).

## 8. INVENTORIES

Inventories which are stated at cost are broken down as follows:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Fuel	P 4,228,055,088	P 3,500,956,712
Lubricants	131,763,248	187,791,452
Others	<u>36,088</u>	<u>11,512</u>
	<u>P 4,359,854,424</u>	<u>P 3,688,759,676</u>

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying amount of Php 2,889.8 million and Php 2,838.9 million as of September 30, 2013 and December 31, 2012, respectively, have been released to the Group in trust for the bank. The Group is accountable to the bank for the trusted inventories or their sales proceeds (see Note 16.1).

There were no inventory write-down in all of the years presented.

An analysis of the cost of inventories included in the cost of fuels and lubricants sold for the year is presented in Note 19.1.

## 9. LAND HELD FOR SALE AND LAND DEVELOPMENT COSTS

The land held for sale and land development costs stated at cost relate to the following as of September 30, 2013 and December 31, 2012:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Land held for sale	P 483,151,452	P 483,927,707
Land development costs	<u>18,102,852</u>	<u>18,102,852</u>
	<u>P 501,254,304</u>	<u>P 502,030,559</u>

The land held for sale is used as security for the Group's installment payable with Land Bank of the Philippines (LBP) (see Note 16.2a).

Land development costs pertain to expenditures for the development and improvement of the land held for sale of the Park.

#### 10. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various banking credit facilities covered by hold-out agreements (see Notes 6 and 16.1) amounting to P 124.7 million and P82.7 million as of September 30, 2013 and December 31, 2012, respectively. As such, these are restricted as to withdrawals. The proceeds from availment of the banking credit facilities by the Group are used for the purpose of purchasing fuel and lubricant supplies (see Note 16.1). Interest rates for this type of deposit range from 2.40% to 5.975% per annum for all the years presented.

#### 11. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account as of September 30, 2013 and December 31, 2012 is shown below:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Prepayments	P 199,992,883	P 123,385,019
Creditable		
withholding tax	96,087,858	96,343,991
Supplies	100,823,248	67,601,838
Others	<u>45,069,054</u>	<u>9,404,674</u>
	<u>P 441,973,043</u>	<u>P 296,735,522</u>

#### 12. PROPERTY AND EQUIPMENT

<u>September 30, 2013</u>	
Land	P 358,163,195
Property, Plant and Equipments	9,098,168,620

Less: Accumulated Depreciation	<u>(1,576,099,541)</u>	<u>7,522,069,079</u>
Net Book Value-September 30, 2013		<u>P 7,880,232,274</u>

<u>December 31, 2012</u>		
Land		P 314,817,213
Property, Plant and Equipments	7,899,408,551	
Less: Accumulated Depreciation	<u>(1,215,439,947)</u>	<u>6,683,968,604</u>
Net Book Value-December 31, 2012		<u>P 6,998,785,817</u>

### **12.1 Acquisition of Vessels**

#### **(a) MT Chelsea Thelma (MT Thelma)**

On April 26, 2011, the Group entered into a Memorandum of Agreement (MOA) with a foreign corporation for the importation of one unit of oil tank vessel (MT Thelma) from China for US\$19.8 million (see Note 16.2d). Formal turn-over of the vessel occurred in early 2012.

Since the vessel is not yet ready for the Group's use as of December 31, 2011, the contract price of the vessel, other incidental costs of the transaction and costs incurred for the major improvements made to the vessel totalling Php 874.9 million were recognized as part of Construction in Progress CIP in the 2011 consolidated statement of financial position. The whole amount was then reclassified to vessel in 2012 upon completion of the vessel.

#### **(b) MT Chelsea Cherylyn (MT Cherylyn)**

On September 12, 2007, the Group entered into a MOA with a foreign corporation for the construction of one unit oil tank vessel (MT Cherylyn) in China for US\$15.0 million. The vessel was completed and launched in July 2009. Total cost incurred during construction of MT Cherylyn amounted to Php 877.5 million inclusive of capitalized borrowing costs totalling Php 32.0 million representing interest charges directly attributable to the construction of the vessel (see Note 16.3a).

### **12.2 Double Hull Conversion of Vessels**

On December 14, 2010, Philippine Maritime Industry Authority (MARINA) issued Circular 2010-01, mandating all owners and operators of oil tankers and tanker-barges with 600 deadweight tonnage and above must be double hulled within twelve months from the effectivity of the Circular. However, oil tankers carrying petroleum black products shall continue to be covered under Circular 2007-01 regardless of size.

As of December 31, 2012, MT Chelsea Resolute, MT Chelsea Denise and MT Ernesto Uno have completed their double hulling. Total costs that were capitalized as part of tanker

amounted to Php 32.3 million, Php 30.3 million and Php 27.3 million, respectively. After the completion of the double hulling of these tankers in 2012, all of the Group's tankers are double-hulled and hence, compliant with the pertinent MARINA circular.

### **12.3 Revaluation of Tankers**

The Group's tankers were revalued by an independent appraiser regularly since 2009. The revaluation increment relating to the Group's property and equipment is presented as part of Revaluation Reserves in the equity section of the consolidated statements of changes in equity. It is the management's policy to revalue the tankers at least every two years, having assessed that this schedule allows it to revalue with sufficient regularity such that the carrying amount of the tankers will not materially differ from that which would be determined using fair value at the end of the reporting period.

If the tankers were carried at cost model, the cost, accumulated depreciation and net carrying amount would be as follows:

		<u>2012</u>
Cost	Php	2,479,523,748
Accumulated depreciation		( <u>269,952,387</u> )
Net carrying amount	Php	<u>2,209,571,361</u>

### **12.4 Disposal of Tanker**

In 2011, three of the Group's vessels were sold for Php 2.2 million. Also, in 2011, the Group disposed one vessel for Php 121.9 million. The related gain from these sales transactions, taking into consideration the carrying value, as restated, and the related dry docking costs; amounted to Php 41.9 million in 2011 which is presented under the Other Income (Charges) account in the 2011 consolidated statement of comprehensive income.

### **Collaterals**

Port expansion facilities under PPIP with carrying value of Php 211.6 million are used to secure the Group's instalment payable with LBP (see Note 16.2a).

Two of the tankers of the Group with net revalued amount of Php 331.5 million as of December 31, 2012 are used to secure a loan with Philippine Bank of Communication (see Note 16.2c).

Certain properties and equipment with an aggregate carrying value of Php 42.5 million as of December 31, 2012 are mortgaged with local banks (see Note 16.4).

Moreover, certain service vehicles of the Group with carrying value of Php 110.8 million as of December 31, 2012 were used as collaterals for mortgage payable (see Note 16.5).

### 12.5 Finance Lease

The carrying amount of hauling and heavy equipment held under finance lease amounts to Php 25.5 million as of December 31, 2012.(see Note 16.6).

### 13. LAND HELD FOR FUTURE DEVELOPMENT

Land held for future development represents the Group's land property totaling to 44 hectares in Phase 2 and 3 of the industrial Park that is intended for sale once developed.

The Group's land held for future development was used as collateral for the Group's installment payable with LBP (see Note 16.2a).

### 14. OTHER NON-CURRENT ASSETS

The composition of this account as of September 30, 2013 and December 31, 2012 is shown below:

	<u>September 30, 2013</u>		<u>December 31, 2012</u>	
Refundable rent deposits	P	91,369,871	P	69,234,807
Dry docking costs		37,786,028		64,433,228
Deferred minimum lease payments		32,345,961		32,345,961
Deposit for Vessel Acquisition		633,893,093		-
Others		7,646,649		1,793,383
		<u>P 803,041,602</u>		<u>P 167,807,348</u>

Refundable rent deposits represent deposits of the Group for the lease of various parcels of land. These deposits are refundable at the end of the term of agreement and are measured at amortized cost. The total day one loss is determined by calculating the present value of the cash flows anticipated until the end of the lease terms using the related market interest-free rates and is amortized over the lease term. As the refundable rent deposits do not have an active market, the underlying interest rates were determined by reference to market interest rate of comparable financial instrument.

Dry docking costs are being amortized over 24 months or until the occurrence of the next dry docking, whichever comes earlier.

## 15. GOODWILL

Goodwill amounting to Php 84.5 million as of December 31, 2012, represents the excess of acquisition cost over the Group's share in the fair value of identifiable net assets of the acquired subsidiaries at the date of the acquisition and arises from the expected business synergy and economies of scale of the entities combined. In 2012, the Company assessed that the goodwill pertaining with PPMI is impaired, hence, impairment loss amounting to Php 1.3 million was recognized and is presented as part of Finance Costs under Other Income (Charges) account in the 2012 consolidated statement of comprehensive income. The increase in the balance of the Goodwill during 2011 pertains to the acquisition of SPTT. The movements of the account are as follows:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Beginning balance	P 84,516,663	P 87,783,624
Impairment loss		( 1,266,961)
Additions	-	
Ending balance	<u>P 84,516,663</u>	<u>P 84,516,663</u>

## 16. INTEREST-BEARING LOANS AND BORROWINGS

The short-term and long-term interest-bearing loans and borrowings are as follows:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Current:		
Liabilities under letters of credits and trust receipts	P 2,889,771,419	P2,838,941,626
Installment and notes payable	1,222,156,915	1,273,712,910
Mortgage payable	<u>5,406,506</u>	<u>6,692,616</u>
	<u>P 4,117,334,840</u>	<u>P 4,119,347,152</u>
Non-current:		
Installment and notes payable	P 5,360,469,431	P 5,786,132,056
Mortgage payable	<u>3,196,136</u>	<u>9,842,589</u>
	<u>P 5,363,665,567</u>	<u>P 5,795,974,645</u>

### *16.1 Liabilities Under Letters of Credits and Trust Receipts*

The Group avails of letter of credit (LC) and TR lines with local banks to finance its purchases of inventories (see Note 8). These short-term trust receipts bear interests based on prevailing market interest rates at an average of 6.15% and 8.25% per annum in 2013 and 2012 respectively.

The Group is required by the banks to maintain certain collaterals for the credit line facility provided to the Group for working capital requirements. The collaterals are in the form of compensating deposits and a surety of a stockholder (see Notes 10).

The carrying values of liabilities under LCs and TRs recognized as part of interest-bearing loans and borrowings in the consolidated statements of financial position are reasonable approximations of their fair values (see Note 5).

## **16.2 Installment and Notes Payable**

### **16.2a Installment Loan with LBP**

On April 16, 2010, the Group availed the Php 580.0 million loan with LBP. The loan with LBP was used to refinance the installment payable with PHINMA Group via take-out of the outstanding installment payable to PHINMA Group. The refinanced installment payable is payable for seven years with one year grace period on principal and bears an interest rate based on the prevailing LBP rate at the time of availment subject to quarterly repricing with reference to a three month PDST-F rate plus minimum spread of 2.5%. The installment payable with LBP is secured by the Group's parcel of land with carrying value of Php 320.2 million, Php 705.5 million and Php 749.3 million as of December 31, 2012, 2011 and 2010, respectively (see Notes 9 and 13), and port expansion facilities with carrying value of Php 211.6 million as of December 31, 2012 (see Note 12).

### **16.2b Notes Facility Agreement**

In 2011, the Group availed the Php 750.0 million clean loan under the notes facility agreement entered into with BDO Capital & Investment Corporation, Banco De Oro Unibank, Inc., Maybank Philippines, Inc., Robinsons Bank Corporation and Banco de Oro Unibank, Inc. – Trust and Investment Group. The long-term loan amounting to Php 700.0 million with interest rate of 7.35% annually is payable on August 24, 2016 and the remaining Php 50.0 million with interest rate of 7.66% is payable on August 23, 2018.

### **16.2c Omnibus Loan and Security Agreement (OLSA) with Philippine Bank of Communication (PBComm)**

On February 10, 2012, the Group entered into a loan agreement with PBComm amounting to Php 107.0 million to partly finance the double hulling and dry docking of a vessel owned by the Group. In February and May 2012, PBComm released the loan amounting to Php 65.0 million and Php 42.0 million, respectively. The loan is subject to annual interest rate of 9.5% and is payable in thirty-six equal monthly installments with one quarter grace period from date of each release.

The loan is secured by a chattel mortgage on two of the vessels of the Group with net book value amounting to Php 292.4 million as of December 31, 2012.

The loan agreement requires the Group to maintain a debt-to-equity ratio of not more than 4:1. As of December 31, 2012, the Group has complied with its debt covenants with the bank.

**16.2d OLSA with BDO Unibank, Inc. (BDO)**

On April 26, 2011, the Group entered into a MOA with China Shipbuilding & Exports Corporation for the importation of one unit of oil tank (MT Thelma) in the amount of US\$19.8 million [see Note 12.1(a)].

In connection with the MOA, the Group entered into an OLSA amounting to US\$14.5 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. The loan is payable into twenty-seven consecutive equal quarterly principal installments starting in August 2012. The loan is subject to interest computed at one-year LIBOR plus applicable margin of 3.5% per annum.

In connection with the OLSA, certain advances made by certain stockholders are subordinated to the loan. Based on said agreement, the obligation of the Group to pay the stockholders' advances shall be fully subordinated, junior and subject in right of payment to the prior indefeasible payment and performance in full of the OLSA. The Group affirms that any and all obligations of the Group relative to the OLSA shall be settled first before any of its financial obligations to such shareholders' advances are paid. Accordingly, portion of the advances from shareholders are treated as non-current liabilities. In 2012, however, upon the increase in the Group's capitalization, subordination agreement was lifted by the bank in 2012.

The loan is secured by a chattel mortgage on one of the Group's vessels with book value, as restated, of Php 125.1 million as of December 31, 2011 (see Note 12) and a refund guaranty issued by the Bank of China for US\$8.16 million until MT Thelma is delivered. The loan will be further secured by a chattel mortgage of MT Thelma upon its delivery and registration with the MARINA. The carrying amount of MT Thelma, presented as part of CIP, amounted to Php 874.9 million as of December 31, 2011. As of December 31, 2012, the loan is secured by chattel mortgages on these two vessels with total book value of Php 1,098.3 million.

Related debt issuance costs amounted to Php 8.2 million of which Php 2.3 million and Php 0.5 million was amortized during 2012 and 2011, respectively, using effective interest rate of 5.02%. Amortized debt issuance costs were recognized as part of the Finance Costs under the Other Income (Charges) account in the consolidated statements of comprehensive income. The unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

**16.2e Convertible Notes Facility Agreement with BDO**

On July 11, 2012, the Company executed a Convertible Notes Facility Agreement with BDO worth Php 500.0 million with warrants offering amounting to Php 180.0 million. The loan is subject to annual interest rate of 7.6% and is payable quarterly in arrears over its three years term. The issuance of the convertible note is part of the Group's plan to raise long-term capital, to refinance short-term debt and finance capital expenditures.

BDO is granted the option to convert all or any portion of the unpaid principal amount of the notes held by it into the conversion shares exercisable at any time upon written notice by BDO to the Company specifying the time and date of the conversion. Also, BDO has the

option to elect one nominee to the Company's Board of Directors which option may be exercised any time after signing date and on or before conversion date.

For and in consideration of the subscription of BDO to the convertible notes issued by the Company, the latter also granted the former the right to subscribe to warrants to be issued by the Company convertible into common shares of the Company up to the aggregate principal amount of Php 180.0 million. The availment of the convertible note and the issuance of the warrant were approved by the Company's stockholders during a special stockholders' meeting held on September 6, 2012. The Company's stockholders also authorized the execution, delivery and performance of Subscription Agreement between the Company and BDO in relation to the issuance of the warrants.

The exercise price of the option to convert the note to the Company's common shares and the warrant is equivalent to a determined price base plus a premium of fifteen percent. The exercise period consists of a two-year period commencing on the third anniversary date of the convertible notes issue date and expiring five years thereafter.

Considering that a fixed number of shares will be issued for options and warrants, the warrants and options may qualify as an equity instrument to be recorded as a separate component in the equity in the Group's consolidated financial statements. The Group's management, however, assesses that at the date of the initial recognition, the equity component has no value since the interest rate to be charged by BDO on the convertible note with warrants is similar to the interest rate of the note had it been issued without conversion options and warrants. As such, the fair value of the hybrid convertible note and the host debt instrument is the same resulting in the nil value of the equity component at the date of initial recognition.

Minimum financial ratios to maintain are as follows: (i) debt to equity ratio not to exceed 3:1; (ii) current ratio not to fall below 1:1 and (iii) debt service coverage ratio not to be less than 2.5:1.

#### ***16.2f Notes Facility Agreement with China Banking Corporation and Pentacapital Investment Corporation***

On November 8, 2012, the Company entered into a Notes Facility Agreement co-arranged by China Banking Corporation and Pentacapital Investment Corporation, with a number of participants, totaling Php 2,500.0 million. The loan is subject to a fixed annual interest rate of 7.75% which is payable in twenty quarterly payments. The net proceeds of the loan were used by the Company for the roll out of the retail stations, for debt financing, to support capital expenditures and for other general corporate purposes. As of December 31, 2012, the total amount of the loan has already been drawn down.

By virtue of the notes facility agreement, the Company affirms that it shall maintain listing of its common shares with PSE and shall not declare or pay any dividends to stockholders (other than dividends payable solely in shares of its capital stock) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset

distribution to its stockholders, unless all payments due under the notes are current and updated.

Minimum financial ratios to maintain are as follows: (i) debt to equity ratio not to exceed 3:1; (ii) current ratio not to fall below 1:1 and (iii) debt service coverage ratio not to be less than 2.5:1.

As of September 30, 2012 and December 31, 2012, the Group has complied with its debt covenants except for DSCR which subsequently was waived and amended accordingly.

### **16.3 Term Loans**

#### ***16.3a Term Loan Agreement (TLA) with Development Bank of the Philippines (DBP)***

On September 12, 2007, the Group entered into a MOA with China Shipbuilding & Exports Corporation for the construction of one unit of oil tank (vessel) in the amount of US\$15.0 million [see Note 12.1(b)].

In connection with the MOA, the Group entered into a TLA amounting to US\$13.0 million with DBP, the proceeds of which shall be exclusively used to finance the construction of the vessel. In February 2008 and May 2009, DBP granted the loan amounting to US\$3.9 million (P159.0 million) and US\$9.1 million (P432.5 million), respectively. The loan is payable over five years in equal quarterly principal installments, with one quarter grace period on principal, commencing November 2009 and was subject to 10.5% interest rate per annum.

In 2010, DBP approved the reduction of interest rate from 10.5% to 9% subject to annual review effective September 14, 2010. The agreement also stipulated for interest-bearing hold-out deposits amounting to at least P10.0 million which is shown as Hold-out Deposits under the Other Non-current Assets account in the consolidated statements of financial position (see Note 14). The Hold-out Deposits were agreed to be released by the DBP in 2012. Hold-out deposit earns interest at the rate of 2.5% per annum. In the 2012, DBP further reduced the interest rate to 7.5% effective March 23, 2012.

The loan is secured by a chattel mortgage on certain vessel of the Group with net book value, as restated, amounting to P808.1 million, P713.6 million and P947.3 million as of December 31, 2012, 2011 and 2010, respectively, and of certain vessels with total net book value, as restated, totaling P921.0 million as of December 31, 2010 (see Note 12). The loan is also secured by certain collateral on receivables of CSC and guaranteed by certain stockholders of the Group (see Note 24.).

#### ***16.3b Loan Agreement with Robinsons Bank Corporation (RBC)***

On November 23, 2011, the Group entered into a loan agreement with RBC amounting to P65.0 million to partly finance the double hulling and dry docking of certain vessel of the Group (see Notes 12). The loan is subject to annual interest rate of 8.0% and is payable in twenty-four equal monthly installments.

The loan is secured by a chattel mortgage on one of the vessels of the Group with net book value amounting to P130.7 million and P101.3 million as of December 31, 2012 and 2011, respectively, and receivables of CSC from certain customer (see Note 7). The loan is also guaranteed by certain stockholders of CSC.

***16.3c TLA with Maybank Philippines, Inc.***

On July 18, 2012, the Company signed with Maybank Philippines, Inc. a five year clean term loan amounting to P300.0 million to be used exclusively for capital expenditure and permanent working capital. The loan is subject to annual floating interest rate of 6.0% and is payable in twenty equal quarterly installments.

In connection with the TLA, all existing and future advances to the Company by its stockholders or related parties are subordinated to the loan. The Company agrees that any and all of its obligations relative to the TLA shall be settled first before any of its financial obligations to such shareholders' and related parties' advances are paid.

The TLA also requires the Company to maintain debt-to-equity ratio of not more than 3:1, current ration of at least 1:1 and debt coverage ratio of at least 2.5. The bank however waived the DSCR compliance for year 2012.

***16.3d TLA with Maybank International Ltd.***

On November 20, 2012, the Group entered into a TLA amounting to US\$24.0 million with Maybank International Ltd. to fund various capital expenditures. The total amount of the loan is broken down into US\$14.0 million (tranche 1) which is due in five years and US\$10.0 million (tranche 2) with a term of three years.

The loan is subject to interest computed at one-year LIBOR plus applicable margin of 4.25% per annum, or cost of funds plus a margin of 2.0% per annum, whichever is higher. Interest payments are to be serviced quarterly in arrears. Maybank International Ltd. reserves the right to vary, at its absolute discretion from time to time, such rate of interest, which variation may take place by varying the LIBOR or the margin or spread above the LIBOR, or both.(see note 4)

The TLA also requires the Group to maintain debt-to-equity ratio of not more than 3:1, current ration of at least 1:1 and debt coverage ratio of at least 2.5. The bank however waived the DSCR compliance for year 2012.

Moreover, Maybank International Ltd. has the right of first refusal and right to match any fund raising exercise that may be required to refinance the U.S. dollar-denominated term facility either via follow-on offering of the Group's shares or a syndicated term loan.

The balance of the principal of the loan amounted to P987.2 million, translated into Philippine Peso using the closing rate as of December 31, 2012.

As of September 30, 2013 and December 31, 2012, the Group has complied with its debt covenants with the bank.

#### **16.4 Bank Loans**

The bank loans represent secured loans from local commercial banks for working capital purposes. The loans bear annual interest rates ranging from 7.5% to 14.0% in 2012, 2011 and 2010 subject to monthly repricing. These loans are secured by certain vessels owned by the Group with net book value, as restated, amounting to P182.7 million, as of December 31, 2012. (see Note 12), and by certain stockholders (see Note 16.7).

#### **16.5 Mortgage Payable**

The mortgage payable represents secured loans which bear interest rates ranging from 7.6% to 11.4% per annum, and with terms ranging from 18 months to 36 months. The mortgages are secured by certain service vehicles of the Group, presented as part of Property and Equipment account in the consolidated statements of financial position (see Note 12).

#### **16.6 Obligations under Finance Lease**

The finance lease liability has an effective interest rate of 5.07% which is equal to the rate implicit in the lease contract (see Note 27.5). Lease payments are made on a monthly basis.

#### **16.7 Credit Line**

The Company has an available credit line of P11.4 billion under LC/TR and PN lines. These lines obtained from various banks are being utilized by the Company for procurement of inventories both local and foreign. As of September 30, 2013, P 2.643 billion is free and available.

### **17. TRADE AND OTHER PAYABLES**

This account consists of:

	<u>Note</u>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Trade payables	12.1	P 3,013,396,938	P 565,867,953
Accrued expenses		319,289,571	512,791,859
Advances from customers		289,165,637	310,478,006
Income tax payable		7,321,912	7,321,912
Others		<u>96,758,404</u>	<u>150,645,454</u>
		<u>P 3,725,932,462</u>	<u>P 1,547,105,184</u>

Accrued expenses mostly pertain to payables to various contractors for the construction of retail stations that remains unpaid at the end of the year. In addition, this comprises amounts to be paid in relation to charter hire cost, repairs and maintenance, interest expense arising from loans and professional fees.

The advances from customers include option money from two different locators amounting to P0.1 million in 2012. The said locators have the right and option to purchase subject properties under the terms and condition agreed by the said locator and the Group. However, in the event that the said locator does not exercise its right to purchase the subject properties, the option money shall be refunded to the said locator plus interest at the rate equivalent to the prevailing treasury bill rate plus 2% per annum.

In addition, the advances from customers pertain to the advance payment of the various customers for their fuel purchases. Advances from customers are measured at the amount of cash received from the customers and are offset against trade receivables once the related sales transactions are consummated.

The carrying amount of trade and other payables, which are expected to be settled within the next 12 months from reporting period, is a reasonable approximation of their fair value (see Note 5).

## 18. OTHER NON-CURRENT LIABILITIES

This account consists of:

	<u>Note</u>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Security deposits		<b>P 289,356,463</b>	P 270,272,999
Retirement benefit obligation	21.2	<b>22,229,018</b>	24,337,362
Unearned rent		<b>62,552,570</b>	49,149,537
Others		<b><u>1,301,445</u></b>	<u>995,395</u>
		<b><u>P 375,439,496</u></b>	<u>P 344,755,293</u>

Security deposits represent deposits received from dealers for the lease of retail stations and equipment that are installed in retail stations and are refundable at the end of the lease terms. The deposits are carried at amortized cost using the effective interest rates at the inception of the lease contracts. The day one gain is determined by calculating the present value of the cash flows anticipated until the end of the lease term using certain risk-free rates and is amortized over the lease terms. As the deposits do not have an active market, the underlying interest rates were determined by reference to market interest rate of comparable financial instrument.

## 19. COST OF SALES AND SERVICES

This account is composed of the following as of September 30:

	<u>Notes</u>	<u>September 30, 2013</u>	<u>September 30, 2012</u>
Cost of fuels and lubricants sold	19	<b>P 29,029,381,212</b>	P 22,560,626,592

Cost of services	19	<u>255,041,928</u>	<u>407,239,673</u>
		<u><b>P 29,284,423,140</b></u>	<u><b>P 22,967,866,265</b></u>

### 19.1 Cost of Fuels and Lubricants Sold

The cost of fuels and lubricants sold are broken down as follows:

	Note	<u>September 30, 2013</u>	<u>September 30, 2012</u>
Inventories at beginning of year	8	<b>P 3,688,759,676</b>	P 2,132,622,405
Net purchases during the year		<u>29,955,517,887</u>	<u>23,128,992,830</u>
Goods available for sale		<b>33,644,227,563</b>	25,261,615,234
Inventories at end of year	8	<b>( 4,359,854,424 )</b>	<b>( 2,700,988,642 )</b>
		<u><b>P 29,284,423,139</b></u>	<u><b>P 22,560,626,592</b></u>

## 20. OPERATING EXPENSE BY NATURE

The details of operating expenses by nature are shown below:

	Notes	<u>September 30, 2013</u>	<u>September 30, 2012</u>
<b>COST OF SALES:</b>			
Fuels	19	<b>P 28,861,665,627</b>	P 22,345,725,816
Lubricants	19	<b>167,715,585</b>	214,900,776
Services	19	<b>255,041,928</b>	407,239,673
<b>OPERATING EXPENSES:</b>			-
Salaries and employees' benefits		<b>141,110,439</b>	128,946,545
Depreciation and amortization		<b>249,036,795</b>	210,163,849
Trucking charges		<b>195,040,865</b>	112,975,319
Fuel, oil and lubricants		<b>26,417,630</b>	36,941,369
Advertisements and promotion		<b>94,371,712</b>	77,351,725
Rent		<b>229,425,898</b>	167,590,509
Office supplies		<b>4,087,673</b>	5,848,172
Repairs and maintenance		<b>37,311,633</b>	26,124,847
Travel and transportation		<b>31,583,668</b>	25,172,829

Professional fees	27,781,276	30,277,850
Taxes and licenses	45,288,061	39,414,046
Representation	13,108,605	9,176,949
Insurance	18,458,168	20,833,039
Bank charges	1,524,899	1,960,928
Documentary Stamps	75,847,059	63,372,262
Security fees	23,794,821	19,862,674
Dues and Subscription	17,682,736	5,125,569
Service Fee	39,683,122	31,506,813
Utilities	29,951,703	23,766,176
Provisions for Bad Debts	2,700,000	2,700,000
Rebates	45,429,455	30,957,086
Miscellaneous	19,491,837	16,267,868
	<b>P</b>	<b>P</b>
	<b>30,653,551,193</b>	<b>24,054,202,689</b>

The expenses are classified in the consolidated statements of comprehensive income as follows:

	September 30, 2013	September 30, 2012
Cost of Sales & Services	<b>P 29,284,423,139</b>	P 22,967,866,265
Selling and administrative expenses	<b>1,369,128,054</b>	1,086,336,424
	<b>P 30,653,551,193</b>	<b>P 24,054,202,689</b>

## 21. SALARIES AND EMPLOYEE BENEFITS

### *21.1 Salaries and Employee Benefits Expense*

Expenses recognized for salaries and employee benefits (see Note 20) are presented below:

	September 30, 2013	September 30, 2012
Salaries and wages	<b>112,460,902</b>	107,514,040
13th month pay	<b>7,572,091</b>	7,286,653
Other Benefit and Bonuses	<b>21,077,446</b>	14,145,851
	<b>141,110,439</b>	128,946,545

### *21.2 Post-employment Benefits*

The Group maintains a wholly funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee covering all regular full-time employees. Actuarial

valuations are made annually to update the retirement benefit costs and the amount of contributions.

The amount of retirement benefit obligation, which is presented as part of Other Non-current Liabilities account (see Note 18) in the consolidated statements of financial position as of December 31, follows:

	<u>2012</u>
Present value of obligation	<b>P 36,440,105</b>
Unrecognized actuarial losses	<b>(12,102,743 )</b>
Unamortized transitional liability	<u>-</u>
	<b><u>P 24,337,362</u></b>
	<u>2012</u>
Balance at beginning of year	<b>P 16,815,536</b>
Actuarial loss	<b>13,643,977</b>
Current service cost	<b>4,921,333</b>
Interest cost	<b>1,499,078</b>
Changes in assumptions	<b>( 371,380)</b>
Benefits paid	<b>( 102,639)</b>
Experience adjustments	<b>34,200</b>
Effect of curtailment	<u>-</u>
Balance at end of year	<b><u>P 36,440,105</u></b>

The amounts of retirement benefits expense recognized in the consolidated statements of comprehensive income are as follows:

	<u>Note</u>	<u>2012</u>
Current service cost	<b>P</b>	<b>4,921,333</b>
Interest cost		<b>1,499,078</b>
Amortization of transitional liability		<b>899,725</b>
Actuarial loss (gain) recognized during the year	<b>(</b>	<b>146,530)</b>
Curtailment gain		<u>-</u>
	<b>22.1</b>	<b><u>P 7,173,606</u></b>

The amount of retirement benefits expenses is presented under Selling and Administrative Expenses in the consolidated statements of comprehensive income.

Presented below are the historical information related to the present value of the retirement benefit obligation and the experienced adjustments arising on plan liabilities (in thousand Philippine Pesos).

	<u>2012</u>
Present value of the obligation	<b>P 36,440</b>
Experience adjustments on plan Liabilities	<b>34</b>

For the determination of the retirement benefit obligation, the following actuarial assumptions were used:

	<u>2012</u>
Discount rate	<b>4.70% to 6.20%</b>
Expected rate of salary increase	<b>5% to 7%</b>

Assumptions regarding future mortality are based on published statistics and mortality tables.

The Group's post-employment benefit is unfunded as of December 31, 2012. The Group has yet to determine how much and when to fund the post-employment benefit plan.

## **22. REGISTRATION WITH THE BOARD OF INVESTMENTS**

### ***22.1 BOI Registration as New Industry Participant – Davao Depot***

The Company was registered with the Bureau of Investments (BOI) on November 16, 2005, as a new industry participant with new investment in storage, marketing and distribution of petroleum products under RA No. 8479 (Downstream Oil Industry Deregulation Act). Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Company is also entitled to certain tax and non-tax incentives as follows:

- (a) Income tax holiday (ITH) for five years from November 16, 2005 without extension or bonus year from the date of registration;
- (b) Additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital

equipment to number of workers set by the board of not more than US\$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH;

- (c) The Company may qualify to import capital requirement, spare parts and accessories at zero percent (0%) from the date of registration up to June 16, 2011 pursuant to the Executive Order No. 528 and its implementing rules and regulations.

Special transport equipment such as but not limited to tanks, trucks/lorries may be imported with incentives subject to land transportation operation requirements;

- (d) Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment;
- (e) Importation of consigned equipment for a period of five years from the date of registration, subject to posting of a re-export bond; and,
- (f) Other non-fiscal incentives, which may be applicable.

The Company's ITH expired on November 16, 2010. After the expiration date, the Company's transactions relating to Davao depot is subject to corporate income tax rate of 30%.

## ***22.2 BOI Registration as New Industry Participant – Batangas Depot***

The Company was also registered with the BOI on February 26, 2010 as new industry participant with new investment in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Deregulation Act) for its storage tanks in Calaca, Batangas. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Company's transaction relating to Batangas depot is also entitled to certain tax and non-tax incentives as also mentioned in the previous page. The ITH will expire five years from February 26, 2010.

## ***22.3 BOI Registration as New Industry Participant – Zamboanga Depot***

The Company was also registered with the BOI on November 25, 2010 as new industry participant with new investment in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Deregulation Act) for its storage tanks in Talisayan, Zamboanga City. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Company's transaction relating to Zamboanga Depot is also entitled to certain tax and non-tax incentives as also mentioned in the previous page. The ITH will expire five years from November 25, 2010.

#### ***22.4 BOI Registration for the New Investment in Downstream Oil Industry Activities – Davao Expansion***

On May 14, 2010, the Company was registered with the BOI for the new investment in downstream oil industry activities under RA 8479 (Downstream Oil Industry Deregulation Act) for the additional two storage tanks for petroleum products with storage capacity of 7.4 million liters in Davao depot. Under its registration, the Company shall be entitled to avail of the incentives as cited in the previous page. However, ITH for five years from May 14, 2010 is subjected to the base figure of

148.2 million liters representing the Company's highest attained sales volume of its existing depot facilities (in Davao Depot) prior to the filing of application for registration of new investment.

#### ***22.5 22.5 BOI Registration for New Investment – Bacolod Storage Terminal***

On May 10, 2012, the Company was registered with the BOI as new industry participant with new investment in storage, marketing and distribution and bulk marketing of petroleum products under RA 8479 for its storage terminal in Bacolod City. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Company's transaction relating Bacolod storage terminal is also entitled to certain tax and non-tax incentives as also mentioned in the previous page. The ITH will expire five years from May 10, 2012.

#### ***22.6 BOI Registration for New Investment – Cagayan De Oro City Storage Terminal***

On May 10, 2012, the Company was registered with the BOI as new industry participant with new investment in storage, marketing and distribution and bulk marketing of petroleum products under RA 8479 for its storage terminal in Bacolod City. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Company's transaction relating Bacolod storage terminal is also entitled to certain tax and non-tax incentives as also mentioned in the previous page. The ITH will expire five years from May 10, 2012.

#### ***22.7 BOI Registration for MT Thelma and MT Cherylyn***

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT Thelma and MT Cherylyn, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, CSC is entitled to tax and non-tax incentives which include a six-year ITH. For MT Cherylyn, the related tax incentives started in April 2009. Meanwhile, the tax incentive for MT Thelma started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered project.

## 23. TAXES

The Company's availment of income tax holiday pertaining to its original facilities in Davao depot expired in November 2010. Tax income for the years 2012 and 2011 pertains to the income of subsidiaries and portion of the Company's income subjected to income tax (see Note 22). The tax income for the year 2010 pertains to the subsidiaries.

The deferred tax assets amounting to P0.8 million, P0.6 million December 31, 2012, pertains to Net Operating Carry-over (NOLCO) of CSMMSC and PN-X-Chelsea. The related deferred tax income amounted to P0.2 million as of December 31, 2012.

Deferred tax assets amounting to P23.0 million as of December 31, 2012, pertains to NOLCO, impairment and MCIT of PPPI, PPIPC and PPMI. The related deferred tax income amounted to P8.0 million, as of December 31, 2012.

The net deferred tax liabilities as of December 31, 2012 pertains to the following:

	<b>Consolidated Statements of Financial Position</b>	<b>Consolidated Statements of Comprehensive Income</b>
	<u><b>2012</b></u>	<u><b>2012</b></u>
<b>Deferred tax assets:</b>		
Impairment loss	P 3,360,463	P (258,427)
Retirement benefit obligation	2,734,604	(673,809)
Accrued loss on contamination	2,057,831	
MCIT	549,478	5,375,175
NOLCO	765,659	3,989,900
Accrued rent	65,992	
Unrealized foreign currency losses - net	<u>9,534,027</u>	<u>8,432,839</u>
<b>Deferred tax liabilities:</b>		
Revaluation reserves of tankers	(126,065,190)	(5,173,211)
Unrealized foreign currency gains - net	(10,726,537)	11,051,467
Capitalized borrowing cost	(8,542,522)	(320,344)
Unamortized debt issuance costs	<u>(1,566,434)</u>	<u>(697,505)</u>
	<u>(146,900,683)</u>	<u>4,860,407</u>
Net deferred expense		<u><u>P 13,293,246</u></u>
Net deferred tax liabilities per table	(137,366,656)	
Less: Net deferred tax assets		
PPMI	9,777,944	
PPPI	7,279,593	
PPIPC	5,491,440	
PNX- Chelsea	647,754	

CSMMSC 164,975  
PGMI

**Deferred tax liabilities – net as presented**

**in the consolidated**

**statements of financial position P (114,004,950)**

The deferred tax expense (income) recognized amounting to P99,542,130 in the consolidated statements of comprehensive income as of December 31, 2012 respectively, pertains to the tax effect on the changes in fair value of tankers under the revaluation model.

The amounts of NOLCO and the applicable years these are valid and deductible from the taxable income are shown below:

<u>Taxable Years</u>	<u>Original Amount</u>	<u>Tax Effect</u>	<u>Valid Until</u>
2012	P 71,764,117	P 11,255,373	2015
2011	16,818,089	4,837,774	2014
2010	<u>3,521,938</u>	<u>1,056,582</u>	2013
	<b>P <u>92,104,144</u></b>	<b>P <u>17,149,729</u></b>	

The Company, PPMI and PPIPC are subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. For the year 2011, the Company, PPMI and PPIPC's MCIT was higher than RCIT. The Group's MCIT in 2011 could be applied against income tax liability up to 2014.

In 2012, 2011 and 2010, the Group opted to claim itemized deductions.

**24. RELATED PARTY TRANSACTIONS**

The Group's related parties include the ultimate Company, the Company, stockholders, the Group's key management, entities under common control by the ultimate Company and others as described below and in the succeeding pages. The following are the transactions with related parties:

**24.1 Sales of Goods**

The Group sells products to certain related parties. Goods are purchased and sold on the basis of the price lists in force with non-related parties.

<u>Amount of Transactions</u>	<u>Outstanding Balances</u>
<u>2012</u>	<u>2012</u>

Sales of goods:

Other related parties	P <u>125,553,735</u>	P <u>88,444,125</u>
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The outstanding receivables from sales of goods to other related parties are presented as part of Trade Receivables under Trade and Other Receivables account in the statements of financial position (see Note 7). The outstanding balances are unsecured, non-interest bearing and payable on demand. There are no impairment losses on the outstanding balances for all the years presented.

## **24.2 Purchases of Services**

The Group purchased services from related parties on the basis of price lists in force with non-related parties.

<b>Amount of Transactions</b>	<b>Outstanding Balances</b>
<b><u>2012</u></b>	<b><u>2012</u></b>
Purchases of services:	
Other related parties	P 654,413,710      P 4,963,791

The amounts of transactions are presented as part of the Cost of Sales and Services account in the consolidated statements of comprehensive income and the related outstanding payables for services obtained in 2012 are presented as part of Trade Payables under Trade and Other Payables account (see Note 17). The outstanding balances are unsecured, non-interest bearing and payable on demand.

In addition, the Company advances a certain amount to a certain related party for the purchase of services. The amount is credited upon the performance of the contractual obligation by the certain related party.

## **24.3 Rentals**

The Group has the following lease agreements with the following related parties:

- a. Udenna Corporation – five year lease term of which total rent expense incurred in the years 2012 amounted to P6.6 million. There is no outstanding payable as of December 31, 2012.
- b. Udenna Development (UDEVCO) Corporation – five year lease term of which total rent expense in 2012 amounted to P26.4 million. Rental deposit for the lease amounted to P7.4 million and is presented as Refundable Rent Deposits under Other Non-current Assets in the 2012 consolidated statement of financial position (see Note 14).
- c. Value Leases, Inc. – three year lease term of which total rent expense in 2012 amounted to P20 million. Refundable Rent Deposits amounted to P0.1 million both in 2012, and is presented as part of Other Non-current Assets in the consolidated financial statements (see Note 14).

#### **24.4 Due from and Due to Related Parties**

The Group grants and obtains unsecured advances to and from PPHI and other unconsolidated related companies for working capital purposes.

As of December 31, 2012, the outstanding receivable and payable balances from these advances are shown as Due From Related Parties and Due to Related Parties, respectively, in the consolidated statements of financial position. Due From Related Parties and Due to Related Parties - current are either receivable in cash or paid through offsetting, unsecured noninterest-bearing liabilities and are expected to be paid within one year; hence, their carrying values are considered to be a reasonable approximation of their fair values. Non-current Due to Related Parties, on the other hand, are unsecured non-interest bearing liabilities. These are stated at their carrying value since the date of repayment is not currently determinable.

The details of the outstanding due from related parties as of December 31, 2012 are as presented in the next page.

	<b><u>December 31, 2012</u></b>
PPHI	<b>P -</b>
<i>Related parties under common control</i>	
Udenna Environmental Services, Inc.	<b>8,300,000</b>
UMRC	-
Udenna Energy Corporation	
VLI-	
One Subic Power Generation Corp.	-
	<b><u>8,300,000</u></b>
<i>Individual stockholder</i>	-
	<b><u>P 8,300,000</u></b>

No impairment loss is recognized in 2012 related to advances to related parties.

The movement of due from related parties as of December 31 is as follows:

	<b><u>December 31, 2012</u></b>
Balance at beginning of year	<b>P 26,311,686</b>
Additions	<b>9,467,416</b>
Collections	<b>(<u>27,479,102</u>)</b>
Balance at end of year	<b><u>P 8,300,000</u></b>

The breakdown of the Due to Related Parties as of December 31, 2012 is as follows:

	<u>December 31, 2012</u>
<b><i>Current:</i></b>	
PPHI	P -
<i>Related parties under common control</i>	
UMRC	83,551,745
Global Synergy Trade and Distribution Corp.	2,000,000
VLI	-
	<u>85,551,745</u>
<i>Individual stockholder</i>	<u>-</u>
Total Current	<u><b>P 85,551,745</b></u>

The movement of due to related parties in 2012 as follows:

	<u>2012</u>
Balance at beginning of year	P 61,180,599
Additions	177,435,185
Payments	( 153,064,209)
Reclassifications	<u>-</u>
Balance at end of year	<u><b>P 85,551,575</b></u>

#### **24.5 Loan Collateral**

- (a) Surety and a negative pledge over the remaining shares of a stockholder secured the liabilities under letters of credits and trust receipts (see Note 16.1).
- (b) The TLA with DBP, OLSA with BDO and PBComm, loan agreement with RBC and certain banks loans of the Group were guaranteed by certain stockholders through a surety agreement with the respective banks. The vessels owned by the Group were also used as security on particular loans.

## **25. EQUITY**

### **25.1 Capital Stock**

Capital stock consists of:

Shares	Amount
<u>Sept. 30, 2013</u> <u>Dec. 31, 2012</u>	<u>Sept. 30, 2013</u> <u>Dec. 31, 2012</u>

Preferred – cumulative, nonvoting, non-participating,  
non-convertible into common shares - P1 par value

Authorized:	<u>50,000,000</u>	<u>50,000,000</u>	<u>P50,000,000</u>	<u>P50,000,000</u>
Issued and outstanding	<u>5,000,000</u>	<u>5,000,000</u>	<u>P 5,000,000</u>	<u>P 5,000,000</u>

Common shares – P1 par value

**Authorized:**

Balance at beginning of year	750,000,000	750,000,000	P 750,000,000	P750,000,000
Increase in authorized stock	<u>1,750,000,000</u>	<u>1,750,000,000</u>	<u>1,750,000,000</u>	<u>1,750,000,000</u>

Balance at end of year	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>P 2,500,000,00</u>	<u>P 2,500,0000,00</u>
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**Issued:**

Balance at beginning of year	906,059,416	661,123,014	P 906,059,416	P 661,123.014
Stock dividends	329,717,816	244,936,202	329,717,816	244,936,202
Issuance	130,000,000		130,000,000	
Reclassification		200		200
Balance at end of year	<u>1,365,777,232</u>	<u>906,059,416</u>	<u>P1,365,777,232</u>	<u>P 906.059,416</u>

P1,428,777,232    P 911,059,416

On April 23, 2012, the SEC approved the Company's increase in authorized capital stock from Php 800.0 million divided into 750.0 million common shares with a par value of Php 1 and 50.0 million preferred shares with par value of Php1 per share to Php 2,550.0 billion divided into 2,500.0 billion common shares with par value of Php1 per share and 50.0 million preferred shares with par value of Php 1 per share.

Prior to the above increase, on September 7, 2010, the SEC approved the Company's increased in authorized capital stock from Php 400.0 million divided into 400.0 million common shares with a par value of Php 1 per share to Php 800.0 million divided into 750.0 million common shares with par value of Php 1 per share and reclassification of 50.0 million common shares to preferred shares with par value of Php 1 per share.

The preferred shares have the following features:

- (a) Non-convertible into common shares;
- (b) Non participating in any other corporation activities or other further dividends, non-voting except in cases specified by law;

- (c) No pre-emptive rights over the holders of common shares as to distribution of net assets in the event of dissolution or liquidation and in the payment of dividends at a specified rate. The Board of Directors shall determine its issued value at the time of issuance and shall determine its dividend rates and the dividends shall be paid cumulatively; and,
- (d) The preferred shares shall be redeemable at the Company's option under such terms as the Board of Directors may provide at the time of issuance. It shall also be re-issuable when fully redeemed.

Moreover, preferred shares have the following features among others as provided in the subscription agreement;

- (a) Dividends on the Preferred Shares shall have a fixed rate of 11.50% per annum calculated in respect of each share with reference to the Issue Price thereof in respect to each dividend period.
- (b) Dividends shall be payable every September 21, December 21, March 21 and June 21 of each year (each a "Dividend Payment Date"). The dividends on the Preferred Shares shall be calculated on a 30/360 day basis and shall be paid quarterly in arrears on the last day of each 3-month dividend period (each a Dividend Payment Date), as and if declared by the Board of Directors. If the Dividend Payment Date is not a banking day, dividends shall be paid on the next succeeding banking day, without adjustment as to the amounts of dividends to be paid.
- (c) The Preferred Shares shall have priority in the payment of dividends at the stipulated rate at the time of issuance and in the distribution of corporate assets in the event of liquidation and dissolution of the Company. As such, the Board of Directors to the extent permitted by law shall declare dividends each quarter sufficient to pay the equivalent dividend. Dividends on the preferred shares shall be cumulative. If for any reason the Company's Board of Directors does not declare a dividend on the Preferred Shares for a particular dividend period, the Company shall not pay a dividend for said dividend period. However, on any future Dividend Payment Date on which dividends are declared holders of the shares shall receive the dividends accrued and unpaid to the holders of the Preferred Shares prior to such Dividend Payment Date. Holders of Preferred Shares shall not be entitled to participate in any other further dividends beyond the dividends specifically payable on the Preferred Shares.

Moreover, the subscription agreement requires that the Company undertakes to maintain a long-term debt to equity ratio of 1:1 throughout the life of the preferred shares.

## ***25.2 Listing with PSE***

On July 11, 2007, the Company offered a portion of its stocks for listing with the PSE. Number of common shares registered was 145.0 million with an issue price of Php 9.80. As of September 30, 2013 and December 31, 2012, the number of holders of such securities is 55 and 50 respectively. The market price of the Company's shares as of June 28, 2013 and December 28, 2012 is Php 5.66 and Php 9.03, respectively.

### ***25.3 Additional Paid-in Capital***

In March 11, 2013, the Company made its disclosure to the Commission and the PSE on the block sale by PPHI to various investors-shareholders executed March 12, 2013. This is for the total of 130 million shares with a price of Php 9.40/share. The proceeds of the block sale were used by PPHI to pay for the 130 million shares earlier subscribed by PPHI. The transaction resulted to an additional paid-in capital of Php 1.058 billion.

In 2012, the Company issued 171,250.8 million shares in favor of UMRC in relation to the share-for-share swap acquisition of CSC. The excess of par value of such issuance amounted to Php 1,248.9 million was recorded as part of Additional Paid-in Capital account (see Note 30).

In 2010, the Company issued 5.0 million of its preferred shares at Php 100 per share. The excess of par value for such subscription amounting to Php 495.0 million was recorded as part of Additional Paid-in Capital account in the consolidated statements of financial position. In addition, the excess of the selling price over the acquisition cost of the treasury shares sold in 2010 also constitutes the Additional Paid-in Capital account.

In 2009, the Social Security System (SSS) has bought an initial 2.83% stake in the Company representing 7.5 million subscribed common shares for Php 42.0 million or at Php 5.60 per share. The excess of par value for such subscription amounting to P34.5 million was recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

In 2007, the Company listed its shares of stock with PSE. Premiums received in excess of the par value during the public offering amounting to Php 227.1 million were recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

### ***25.4 Other Reserves***

In 2012, the Company issued 171,250.8 million common shares plus cash of Php 157.8 million in exchange of the net assets of CSC. The acquisition of CSC is accounted for under business combination using pooling-of-interest method wherein the difference between the consideration given up over the carrying value of the net assets of CSC is recognized as Other Reserves (see Note 30).

### ***25.5 Treasury Shares – At Cost***

There are no treasury shares as at end of September 30, 2013 and December 31, 2012.

### ***25.6 Retained Earnings***

On March 8, 2013, the stockholders ratified the BOD's approval of 30% stock dividends (or a total of 329.7 million shares), valued at par and distributed June 10, 2013 to stockholders of record as of May 15, 2013. In addition, cash dividends of 10 centavos per common shares totaling to Php 103.6 million were also declared and paid in 2013.

On March 8, 2012, the stockholders ratified the BOD's approval of 50% stock dividends (or a total of 244.9 million shares), valued at par and distributed on April 26, 2012 to stockholders of record

as of March 28, 2012. In addition, cash dividends of 10 centavos per common shares totaling to P49.0 million were also declared and paid in 2012.

On March 11, 2011, the stockholders ratified the BOD's approval of 30% stock dividends (or a total of 113.0 million shares), valued at par and distributed on May 6, 2011 to stockholders of record as of April 8, 2011. In addition, cash dividends of 10 centavos per common share totaling to P37.7 million were also declared and paid in 2011.

On March 21, 2011, June 21, 2011, September 21, 2011 and December 1, 2011, the BOD declared and approved the payment of cash dividend to preferred shareholders totaling to P70.7 million.

On June 15, 2010, the stockholders ratified the Board of Directors' approval of a 40% stock dividends (or a total of 107.7 million shares), valued at par and distributed on October 21, 2010 to all stockholders of record as of September 24, 2010. In addition, cash dividends of five centavos per share totaling to P13.7 million were also declared and paid in 2010.

### ***25.7 Capital Management Objectives, Policies and Procedures***

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and,
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Total liabilities	<b>Php 13,765,676,902</b>	Php 12,006,738,969
Total equity	<u><b>6,078,844,304</b></u>	<u>4,500,451,311</u>
Debt-to-equity ratio	<u><b>2.26 : 1</b></u>	<u>2.67 : 1</u>

The increase of the total liabilities in September 30, 2013 is the result of the additional accounts payable trade on the purchase of inventories. The increase in equity is due to the equity placement and accumulated earnings.

The Group's goal in capital management is to maintain a debt-to-equity structure ratio of 2.7 to 1 on total Debt and a 1.5 to 1 for the interest bearing debts.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

## 26. EARNINGS PER SHARE (EPS)-Restated

EPS were computed as follows:

	<u>September 30, 2013</u>	<u>September 30, 2012</u>
a) Net profit - total	Php 541,295,681	Php 515,749,687
b) Net profit attributable to common shares and potential common shares	498,170,681	472,624,687
c) Weighted average number of outstanding common shares	1,332,321,350	1,235,776,653
d) Weighted average number of outstanding common and potential common shares	1,332,320,765	1,235,776,653
Basic EPS (a/c)	<u>Php 0.37</u>	<u>Php 0.38</u>
Diluted EPS (b/d)	<u>Php 0.37</u>	<u>Php 0.38</u>

The options and warrants attached on the convertible notes do not have dilutive effect since the average market price of the common shares of the Company during the year does not exceed the exercise price of the options or warrants (see Note 16.2e).

## 27. COMMITMENTS AND CONTINGENCIES

### *27.1 Capital Commitments*

As of December 31, 2012, the Group has commitments of more than P1,200.0 million for expansion on petroleum retail network, depot, terminalling and logistics facilities, information technology infrastructure and other major expansions related to its business development. The Group has a network of 358 opened retail service stations as of September 30, 2013. An additional of 43 retail service stations are under various stages of completion as of September 30, 2013.

In 2013, the Group plans to expand further its petroleum retail service stations, put up depot and terminalling facilities in strategic locations and complete its chain of logistical support to strengthen its foothold in the industry. It also aim and carry out its investments in it subsidiaries to acquire new tanker vessel to support its supply stability.

## 27.2 Letters of Credits

As of September 30, 2013 and December 31, 2012, the Parent Group has unused LCs amounting to P2,642.9 million and P4,430.0 million, respectively.

## 27.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under several operating leases. The leases have terms ranging from 2 to 15 years, with renewal options, and include annual escalation rates of 2% to 10%. The future minimum rentals payable under these cancelable operating leases are presented as follows:

	<b><u>December 31, 2012</u></b>
Within one year	<b>P 187,663,835</b>
After one year but not more than five years	<b>670,823,252</b>
More than five years	<b><u>808,176,037</u></b>
	<b><u>P 1,666,663,124</u></b>

Total rent expense for the years 2012 amounted to P240.9 million (see Note 20).

## 27.4 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases with third parties. The leases have terms ranging from 2 to 15 years, with renewal options, and include annual escalation rates of 2% to 10%. The future minimum rentals receivables under these cancelable operating leases are presented as follows:

	<b><u>December 31, 2012</u></b>
Within one year	<b>P 38,530,088</b>
After one year but not more than five years	<b>84,012,963</b>
More than five years	<b><u>4,003,448</u></b>
	<b><u>P 126,546,499</u></b>

Rent income in year 2012 amounting to P54.1 million is presented as part of Fuel Service, Storage Income and Other Revenues account in the consolidated statements of comprehensive income.

## 27.4 Finance Lease –Group as a Lessee

The Group is a lessor under several finance lease covering certain hauling trucks with a lease term of 2 to 5 years. The leases provide options to purchase the transportation equipment at the end of the lease terms. Future minimum lease payments (MLP) under the finance leases together with the present value (PV) of the net minimum lease payments (NMLP) follow in 2012 is as follows:

	<u>Future MLP</u>	<u>PV of NMLP</u>
Within one year	P 10,393,611	P7,678,316
After one year but not more than five years	<u>23,511,665</u>	<u>20,304,918</u>
	33,905,275	21,233,632
Amounts representing finance charges	<u>( 5,922,041)</u>	<u>-</u>
Present value of MLP	<u>P 27,983,234</u>	<u>P27,983,234</u>

The liabilities relating to the finance leases are shown as part of Interest-bearing Loans and Borrowings (see Note 16). There are no obligations under finance leases as of December 31, 2012 and 2011.

### ***27.5 TC Agreement***

The Group has existing commitments to charterers under TC agreements for the use of its tankers in transporting oil products for a fixed period. Also associated with these TC agreements is the obligation to keep the Group's tankers in good working condition and compliant with all the shipping regulations as required by the MARINA.

## **9. ACQUISITION OF CSC**

On July 6, 2012, the Company's Board of Directors approved the acquisition of 100% shares of stock of CSC via share for share swap. The acquisition was subsequently approved by the Company's stockholders on September 6, 2012. The agreed purchase price for the sale of the shares amounted to Php 1,578.0 million payable as follows: 90% were paid via the issuance of new PNx common shares taken from the unissued but authorized capital stock of the Company via share-for-share swap and the balance of ten percent amounting to Php 157.8 million was paid in cash. Accordingly, 171,250,799 new common shares were issued in favor of shareholders of CSC, majority of whom was held by UMRCat the proportion of 30 PNx shares to 1 CSC. The purchase price in acquiring CSC was based on a 30-day volume weight-average price from May 24 to July 5, 2012 or at P8.3 per share.

The Group accounts for the business combination under common control under pooling of interest-type method. The balance of retained earnings as of January 1, 2010 has been restated from the amounts previously reported to record the assets and liabilities CSC as a result of a business combination.

## **Item II - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

### **Comparable discussion on Material Changes in Results of Operations for the three Months' Period Ended September 30, 2013 vs. September 30, 2012.**

#### ***Revenues***

The Group generated total revenues of Php 31.664 billion in 2013 which is 28% higher than its 2012 level of Php 24.941 billion, primarily due to the 32% increase in sales volume of refined petroleum products. However, this was minimized due to the lower revenues from fuels service, shipping, storage and other revenue.

Sales revenues from trading and distribution of petroleum products increased by 28% from Php 24.584 billion in 2012 to Php 31.462 billion in 2013 resulting principally from a wider distribution network and expanded institutional customer base and also as a result of improved price competitiveness. In spite of the 32% increase in volume, revenue is only up by 28%. This was a result of a lower average selling price for the current as a MOPS year to date September 2013 for Gasoil and Mogas is lower by 2.9% and 3.39% respectively compared to the same period last year. The Company had three hundred fifty-eight (358) Phoenix Fuels Life retail service stations as of September 30, 2013 compared to two hundred seventy-five (275) retail stations as of the same period last year. The Company has a number of retail stations undergoing construction and projected to be opened within the year.

The Group generated Php201.481 million from its fuels service, storage, port and other income in 2013 versus Php357.029 million in 2012, a 44% decline compared to the same period last year. This was caused by the conversion of service revenue for Mindanao, except Davao City, to an all-in-sales of Jet A1 arrangement instead of mere service which in turn contributed to the volume and revenue growth of the Company.

#### ***Cost and expenses***

The Group recorded cost of sales and services of Php29.284 billion, an increase of 28% from its 2012 level of Php22.968 billion primary due to a 28% increase in the sales volume of petroleum products. However, the average unit cost this year was lower compared to the same period last year as a result of lower petroleum product prices more specifically during the April and May of this year.

Selling and administrative expenses increased by 26% as a result of higher volume and the continuous expansion of the Group's business operations. With its growing retail presence nationwide and the scaling-up of operations, the Company incurred increases in manpower, and logistics costs including depreciation of facilities.

#### ***Net Income***

The Group's net income as of the three quarters of 2013 is Php541.296 million versus 2012 same period net income of Php515.750 million. The Company was able to maintain a decent gross profit in spite of the recent price volatility due to improved inventory, trading and supply management.

The Company is registered with the Board of Investments on November 16, 2005 as a new industry participant with new investments in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Regulation Act) and, as such, continues to enjoy an income tax holiday for five (5) years from November 16, 2005.

The Company obtained additional registration approval from the Board of Investments (BOI) under R.A. 8479 or Oil Industry Deregulation Law for its Calaca, Batangas Terminal. This entitles the Company to an Income Tax Holiday (ITH) on the revenue activities from this additional storage capacity for five (5) years starting February 2010. Another BOI registration was granted for its Davao Terminal Expansion facility effective February 2010 thus entitling the Company another set of incentives including the five (5) year ITH in its Davao Terminal Marketing and Storage activities. These additional ITH incentives will allow the Company to enjoy an effective income tax rate well below 30% as it continuously expands its storage and obtains further incentives from the BOI.

The Company was also registered with the BOI on November 25, 2010 as new industry participant with new investments in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Deregulation Act) for its storage tanks in Talisayan, Zamboanga City. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

The Company gets new approvals with the BOI for its two (2) new facilities. Both its Cagayan de Oro City and the Bacolod City depot facilities were registered and issued certification by the BOI last May 12, 2012. The registration entitles the Company ITH for five years from registration plus other fiscal and non-fiscal incentives accorded to BOI registered entity.

### **Financial Condition**

*(As of September 30, 2013 versus December 31, 2012)*

Total resources of the Group as of September 30, 2013 stood at Php19.845 billion, a growth of 20% over the Php16.507 billion as of December 31, 2012.

Cash and cash equivalents increased by 85% from Php438 million in December 31, 2012 to Php812 million due to timing of collections of receivables as against payment various liabilities.

The Group's liquidity position continued to be strong with Current Assets amounting to Php10.781 billion as of September 30, 2013, up from PPhp8.967 billion as of December 31, 2012.

Trade and other receivables increased by 17%, from Php3.557 billion as of December 31, 2012 to Php4.165 billion as of September 30, 2013, which were mainly due to increase in trade receivable as a result of increasing sales revenue. The Group continues to enhance its credit policies to minimize overdue accounts.

Inventories increased by 18%, from Php3.689 billion as of December 31, 2012 to Php4.360 billion as of September 30, 2013. The Company maintains an average of around one month worth of inventory to ensure stable supply in retail stations and commercial/industrial clients.

Due from related parties in September 30, 2013 and December 31, 2012 is Php11.374 million and Php8.300 million respectively. The increase of Php3.074 million is due to various charges to related

parties during the period.

Input taxes-net decreased by 7% in September 30, 2013 is the result offsetting it against output taxes on sales.

Other current assets are at Php442.0 million and Php296.7 million as of September 30, 2013 and December 31, 2012 respectively. The increase represents prepaid rentals on leased retail service stations properties and depot sites, prepaid insurance and other current assets.

As of September 30, 2013, the Group's property and equipment, net of accumulated depreciation, increased to Php7.880 billion compared to Php6.999 billion as of December 31, 2012 due to investments in additional depot capacity in existing areas and new sites. As of the second quarter, the Company completed its Depot facility expansion in Davao City and additional storage tanks in Calaca, Batangas and Zamboanga City. More retail stations were also constructed and or under construction in Luzon, Mindanao and Visayas as of this reporting date.

Loans and Borrowings decreased by 4% from Php9.915 billion as of December 31, 2012 to Php9.481 billion as of September 30, 2013. The decrease was a product of where inventories were financed by longer suppliers' credit terms.

Trade and other payables increased by 141%, from ₱ 1.547 billion as of December 31, 2012 to Php3.726 billion as of September 30, 2013. This is the result of the higher inventory which are financed by suppliers' credit.

Total Stockholders' Equity increased to Php6.079 billion as of September 30, 2013 from Php4.500 billion as of December 31, 2012 as a result of the Php1.188 billion equity placements plus the income earned during the period less the cash dividend to preferred shares of Php43.125 million and to common shares of Php103.606 million declared during the first semester.

#### Key Performance Indicators and Relevant Ratios

The Company's key performance indicators and relevant ratios and how they are computed are listed below:

	September 30 2013 (year-to-date)	December 31 2012 Full Year
Current Ratio <sup>1</sup>	1.37 : 1	1.56 : 1
Debt to Equity-Total <sup>2</sup>	2.26 : 1	2.67 : 1
Return on Equity <sup>3</sup>	10%	15.24%
Net Book Value Per Share <sup>4</sup>	4.45	4.97
Debt to Equity-Interest Bearing <sup>5</sup>	1.56 : 1	2.21 : 1
Earnings Per Share-Adjusted <sup>6</sup>	0.37	0.56

#### Notes:

1 - Total current assets divided by current liabilities

*2 - Total liabilities divided by tangible net worth*

*3 – Period or Year Net income divided by average total stockholders' equity*

*4 –Total stockholder's equity (net of Preferred) divided by the total number of shares issued and outstanding*

*5- Interest Bearing Debts divided by Total stockholder's equity (net of Preferred)*

*6 – Period or Year Net income after tax divided by weighted average number of outstanding common shares*

These key indicators were chosen to provide management with a measure of the Company's financial strength (Current Ratio and Debt to Equity) and the Company's ability to maximize the value of its stockholders' investment in the Company (Return on Equity, Net Book Value Per Share and Earnings Per Share). Likewise, these ratios are used to compare the Company's performance with similar companies.

The Company debt to equity (DE) ratio for 2012 was 2.67: 1 due to the need to maintain high level of inventory to support sales requirements in the first month of 2013. September 30, 2013 shows significant improvement of its DE at 2.26: 1 on total debt and 1.56: 1 for interest bearing debt. This is a result of the equity placement during the 1st quarter and the income generated for the three quarters.

The foregoing key indicators were chosen to provide management with a measure of the Group's financial strength (Current Ratio and Debt to Equity) and the Group's ability to maximize the value of its stockholders' investment in the Group's (Return on Equity, Net Book Value Per Share and Earnings Per Share). Likewise these ratios are used to compare the Group's performance with its competitors and similar-sized companies.

**Material Changes to the Group's Balance Sheet as of September 30, 2013 compared to December 31, 2012 (Increase/decrease of 5% or more)**

85% increase in Cash and Cash Equivalents

This is a result of higher revenue during the period. Minimum levels of Cash are also maintained to support maturing obligations.

17% increase in trade payable

This is a result of increasing sales revenue during the year.

18% increase in inventory

This is a result of building-up inventory to support the increasing sales.

37% increase in Due from related parties

Due to various charges billed during the period.

7% decrease on Value Added Tax-net

Offset against output VAT increase as a result of higher revenue.

49% increase in other current assets

As a result of increased prepayments e.g. rental, insurance, etc.

141% increase in Trade and other payables

Trade Payable to foreign suppliers for purchases of inventory to support increasing sales volume.

55% increase in deferred tax liability

As a result of deferred tax liability for tanker vessel appraisals increments.

9% increase in other non-current liabilities

As a result of increase in accumulated customer security deposits and unearned rent.

**Material changes to the Group's Income Statement as of September 30, 2013 compared to September 30, 2012 (Increase/decrease of 5% or more)**

28% increase in Sale of petroleum products

Principally due to 32% higher sales volume compared to 2012. However, this was minimized by lower average selling prices compared to the same period of 2012.

44% decrease in Fuel service, Shipping, storage income and other revenue

A result of the conversion of sale of services to an Airline Company to all-in sales of products in Mindanao, except for Davao City.

28% increase in cost of sales

Primarily due to increase in sales of petroleum products minimized by the effect of lower average costs compared to last year.

26% increase in selling and administrative expenses

The increase arose from the ongoing network and storage expansion activities, increase in trade area coverage, and higher sales volume. Volume increased by 41% for this semester period compared to the same period of last year due to wider market coverage and additional institutional accounts.

21% increase in Finance Costs (net)

Due to interest on the instalment payables, bank term loans and TRs availed to finance a higher level of purchases and inventories.

185% increase in other income/Costs

Due to unrealized FOREX loss for the year and various other charges

There are no other material changes in the Group's financial position (5% or more) and condition that will warrant a more detailed discussion. Furthermore, there are no material events and uncertainties known to management that would impact or change the reported financial information and condition of the Group.

## **PART II – OTHER INFORMATION**

1. The Company held its annual stockholders' meeting last March 08, 2013 at the Marco Polo Hotel, Davao City, Philippines.
2. The Board of Directors declared the following dividends for 2013: 30% Stock Dividend to all stockholders of record as of May 15, 2012 and shall be distributable on June 10, 2012 and a Php 0.10 per share cash dividend to all stockholders of record as of April 11, 2013 with payment date on May 08, 2013. The declaration of stock dividends was duly approved by the stockholders during the annual meeting of March 08, 2013.
3. As of September 30, 2013, there are no known trends or demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result, in increasing or decreasing the Group's liquidity in any material way. The Group does not anticipate having any cash flow or liquidity issues.
4. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
5. There are no material commitments for capital expenditures, events or uncertainties that have had or that are reasonably expected to have a material impact on the continuing operations of the Company.
6. There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company.

## SIGNATURES

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

Registrant

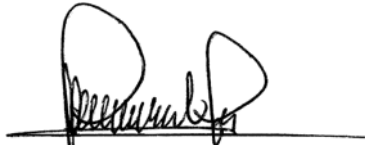
**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**

By:

A handwritten signature in black ink, appearing to be 'D. Uy', written over a horizontal line.

**DENNIS A. UY**

President and Chief Executive Officer

A handwritten signature in black ink, appearing to be 'J. Ong', written over a horizontal line.

**JOSEPH JOHN L. ONG**

Chief Finance Officer

CERTIFICATION

I, **SOCORRO ERMAC CABREROS**, of legal age, Filipino, married and a resident of Davao City, Philippines, after having been sworn to in accordance with law, hereby depose and say:

- 1. I am the Corporate Secretary of **PHOENIX PETROLEUM PHILIPPINES, INC.**, a domestic corporation duly existing and registered under and by virtue of the laws of the Republic of the Philippines with office address located along Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, Philippines;
- 2. I hereby certify the attendance of each director of the Company in the board meetings conducted during the year 2013, as may be applicable:

Names of Director	March 08, 2013	June 26,2013	September 04, 2013	November 27, 2013	December 19, 2013
Domingo T. Uy	P	P	P	P	P
Dennis A. Uy	P	P	P	P	P
Jose Manuel R. Quimson	P	P	P	P	P
Romeo B. De Guzman	P	P	P	P	P
Socorro T. Ermac Cabreros	P	P	P	A	P
J.V. Emmanuel A. De Dios	P	A	P	P	P
Paul G. Dominguez	P	P	P	P	P
Consuelo Ynares Santiago	P	P	P	P	P
Monico V. Jacob	P	A	P	P	P
Cherylyn C. Uy	P	A	P	P	P
Joseph John L. Ong	P	P	P	P	P

P - Present  
A - Absent  
N/A - Not Applicable (either not yet a member or no longer a member of the Board)

- 3. This certification is issued in compliance with the reportorial requirement of the Securities and Exchange Commission.

IN WITNESS WHEREOF, I have hereunto set my hand on **15 JANUARY 2014** in Davao City, Philippines.

*Socorro Ermac Cabreros*  
**SOCORRO ERMAC CABREROS**  
Corporate Secretary

Noted by:  
*Domingo T. Uy*  
**Domingo T. Uy**  
Chairman

SUBSCRIBED AND SWORN TO this on **15 JANUARY 2014** in Davao City Philippines with affiants exhibiting to me their competent evidence of identity as follows:

Name	Valid ID
1. Socorro Ermac Cabreros	SSS ID No. 09-1617272-0
2. Domingo T. Uy	SSS ID No. 09-0185238-6

The affiants further attest that the foregoing is true and correct.

*Myra M. Principe*  
**MYRA M. PRINCIPE**  
Notary Public Until December 31, 2014  
SN 250-2013 / TIN 275-800-544  
Phoenix Petroleum Philippines Inc.  
Phoenix Bulk Depot, Lanang, Davao City  
Roll of Attorney No. 59985  
PTR No. 3949447/01-08-2014/Davao City  
IBP No. 948589/01-08-2014/ Davao City

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CERTIFICATION

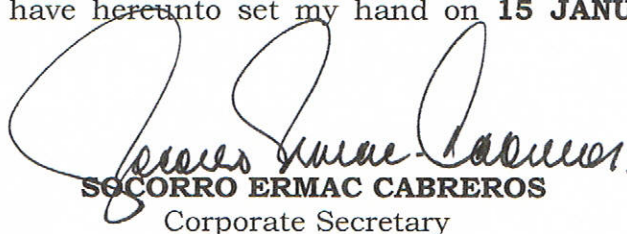
I, **SOCORRO ERMAC CABREROS**, of legal age, Filipino, married and a resident of Davao City, Philippines, after having been sworn to in accordance with law, hereby depose and say:

1. I am the Corporate Secretary of **PHOENIX PETROLEUM PHILIPPINES, INC.**, a domestic corporation duly existing and registered under and by virtue of the laws of the Republic of the Philippines with office address located along Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, Philippines;
2. I hereby certify that in the year 2013, the Company has substantially complied with the provisions of its Manual of Corporate Governance.
3. This certification is issued in compliance with the reportorial requirement of the Securities and Exchange Commission.

**IN WITNESS WHEREOF**, I have hereunto set my hand on **15 JANUARY 2014** in Davao City, Philippines.

Noted by:

**DENNIS A. UY**  
President

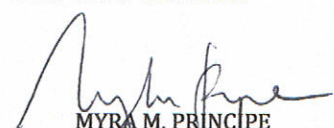
  
**SOCORRO ERMAC CABREROS**  
Corporate Secretary

SUBSCRIBED AND SWORN TO on **15 JANUARY 2014** in Davao City Philippines with affiants exhibiting to me their competent evidence of identity as follows:

Name	Valid ID
1. Socorro Ermac Cabreros	SSS ID No. 09-1617272-0
2. Dennis A. Uy	SSS ID No. 09-1539399-6

The affiants further attest that the foregoing is true and correct.

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**MYRA M. PRINCIPLE**  
Notary Public Until December 31, 2014  
SN 250-2013 / TIN 275-800-544  
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