

10 November 2016

**Securities & Exchange Commission**

Secretariat Building, PICC Complex  
Roxas Blvd, Metro Manila

**Philippine Stock Exchange**

Disclosure Department  
3/F PSE Plaza, Ayala Triangle Plaza  
Makati City, Metro Manila

**Philippine Dealing & Exchange Corporation**

37th Floor, Tower 1, The Enterprise Center  
6766 Ayala Ave. corner Paseo de Roxas  
Makati, 1226 Metro Manila, Philippines

**Attention: Hon. Vicente Graciano P. Felizmenio, Jr.**  
Director, Market and Securities Regulation Department  
Securities & Exchange Commission

**Mr. Jose Valeriano B. Zuño III**  
OIC - Disclosure Department  
Philippine Stock Exchange

**Ms. Vina Vanessa S. Salonga**  
Head - Issuer Compliance and Disclosure Department  
(ICDD)

***Gentlemen and Madam:***

We are herewith submitting the Company's first quarter report for period ended 30 September 2017 (SEC 17-Q) in compliance with the Securities Regulation Code and Revised Disclosure Rules.

Thank you and warm regards.

Very truly yours,



**Atty. Socorro Ermac Cabreros**  
Corporate Secretary

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, 2017
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) 235-8888
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	1,430,937,232
PREFERRED	25,000,000

Amount of Debt Outstanding as of  
September 30, 2017:

Php 26,951,598,179.00

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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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
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Contact Person

(082) 233-0168
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Company Telephone Number

1	2
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Month

3	1
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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

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Domestic

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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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**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2017**  
*(With Comparative Figures as of December 31, 2016)*  
*(Amounts in Philippine Peso)*

	<u>Notes</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	P 4,479,464,315	P 2,338,780,526
Trade and other receivables - net	6	7,890,934,995	8,789,006,059
Inventories	7	4,112,110,369	2,998,780,146
Due from related parties	11	966,470,913	1,506,997,926
Restricted deposits		51,010,908	50,925,404
Input value-added tax - net		1,065,891,044	731,735,790
Prepayments and other current assets		<u>915,683,994</u>	<u>595,963,599</u>
Total Current Assets		<u>19,481,566,538</u>	<u>17,012,189,450</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment - net	8	12,874,986,202	9,002,313,141
Investment properties		1,074,502,000	
Intangible assets - net	9	265,583,193	275,037,490
Goodwill - net		3,726,963,868	10,221,849
Deferred tax assets - net		98,370,643	46,191,775
Other non-current assets		<u>254,309,520</u>	<u>192,084,216</u>
Total Non-current Assets		<u>18,294,715,426</u>	<u>9,525,848,471</u>
<b>TOTAL ASSETS</b>		<u>P 37,776,281,964</u>	<u>P 26,538,037,921</u>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	10	P 16,027,505,408	P 11,262,858,843
Trade and other payables		2,032,674,403	3,332,936,059
Total Current Liabilities		<u>18,060,179,811</u>	<u>14,595,794,902</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	10	8,450,000,000	1,921,565,000
Other non-current liabilities		<u>441,418,368</u>	<u>258,584,286</u>
Total Non-current Liabilities		<u>8,891,418,368</u>	<u>2,180,149,286</u>
Total Liabilities		<u>26,951,598,179</u>	<u>16,775,944,188</u>
<b>EQUITY</b>			
Capital stock	12	1,455,937,232	1,123,097,449
Treasury shares - at cost		( 440,087,488 )	
Additional paid-in capital		5,337,519,228	5,320,816,182
Revaluation reserves		( 12,148,102 )	( 12,148,102 )
Other reserves		( 730,361,725 )	( 730,361,725 )
Retained earnings		<u>5,213,824,640</u>	<u>4,060,689,929</u>
Total Equity		<u>10,824,683,785</u>	<u>9,762,093,733</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>P 37,776,281,964</u>	<u>P 26,538,037,921</u>

*See Notes to Consolidated Financial Statements*

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

	Notes	YTD September		July to September	
		2017	2016	2017	2016
<b>REVENUES</b>					
Sale of goods	11	P 32,274,326,027	P 21,176,728,417	P 13,560,378,644	P 6,713,639,017
Charter fees and other charges			487,560,004		10,992,863
Fuel service and other revenues		200,309,819	152,106,336	72,909,353	32,942,893
Rent and storage income		81,755,026	87,458,916	34,470,770	34,017,302
Port revenues			108,424,648		37,808,184
Sale of real estate					
		<u>32,556,390,872</u>	<u>22,012,278,321</u>	<u>13,667,758,767</u>	<u>6,829,400,259</u>
<b>COST AND EXPENSES</b>					
Cost of sales and services	11	27,838,378,317	18,076,511,528	11,783,947,457	5,424,378,661
Selling and administrative expenses		<u>3,049,729,994</u>	<u>2,430,057,918</u>	<u>1,236,713,079</u>	<u>912,108,509</u>
		<u>30,888,108,311</u>	<u>20,506,569,446</u>	<u>13,020,660,536</u>	<u>6,336,487,170</u>
<b>OTHER CHARGES (INCOME)</b>					
Excess of fair value of net assets acquired over acquisition cost		650,515,229.00		650,515,229.00	
Finance costs		( 593,121,720 )	( 541,834,494 )	( 258,914,431 )	( 106,384,947 )
Finance income		16,683,436	3,919,126	9,168,496	1,300,546
Equity share in net loss of a joint venture					
Others		<u>47,201,082</u>	<u>12,679,069</u>	<u>47,197,837</u>	<u>1,794,266</u>
		<u>121,278,027</u>	<u>( 525,236,299 )</u>	<u>447,967,131</u>	<u>( 103,290,135 )</u>
<b>PROFIT BEFORE TAX and PRE-ACQUISITION PROFIT</b>		1,789,560,588	980,472,576	1,095,065,362	389,622,954
<b>PRE-ACQUISITION PROFIT</b>		<u>(253,764,508)</u>		<u>(253,764,508)</u>	
<b>PROFIT BEFORE TAX</b>		<u>1,535,796,080</u>	<u>980,472,576</u>	<u>841,300,854</u>	<u>389,622,954</u>
<b>TAX EXPENSE</b>		<u>99,173,884</u>	<u>76,683,052</u>	<u>14,758,676</u>	<u>51,004,208</u>
<b>NET PROFIT</b>		<u>1,436,622,196</u>	<u>903,789,524</u>	<u>826,542,178</u>	<u>338,618,746</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
<b>Items that will not be reclassified subsequently to profit or loss</b>					
Remeasurements of post-employment defined benefit obligation					
Revaluation of tankers					
Tax expense					
<b>Other Comprehensive Income - net of tax</b>					
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>P 1,436,622,196</u>	<u>P 903,789,524</u>	<u>P 826,542,178</u>	<u>P 338,618,746</u>
<b>Basic and Diluted Earnings per share</b>	13	<u>P 0.92</u>	<u>P 0.54</u>		

*See Notes to Consolidated Financial Statements.*

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 31, 2017 and 2016**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		P 1,789,560,588	P 980,472,576
Adjustments for:			
Net increase in other reserves due to deconsolidation		-	
Depreciation and amortization	8,9	823,828,436	644,718,286
Interest expense on bank loans and other borrowings		214,624,588	689,449,160
Unrealized foreign exchange currency loss (gain) - net		43,039,873	( 111,338,200 )
Impairment losses on trade and other receivables		18,000,000	18,000,000
Share in net loss of an indirectly-owned joint venture		-	-
Interest income		( 16,768,940 )	( 3,926,218 )
Employee share options		5,793,979	-
Impairment losses on inventories		-	-
Excess of fair value of net assets acquired over acquisition cost		( 650,515,229 )	
Pre-acquisition income		238,324,765	
Loss on sale of investment in an associate		-	-
Loss on settlement of insurance claims		-	-
Operating profit before working capital changes		2,465,888,060	2,217,375,604
Decrease (increase) in trade and other receivables		1,198,236,044	1,373,196,090
Decrease (increase) in inventories		( 1,050,184,073 )	( 465,745,290 )
Increase in land held for sale and land development costs		-	( 1,250,000 )
Decrease (increase) in restricted deposits		-	20,284,299
Increase in input value-added tax		727,443,333	( 36,648,786 )
Decrease (increase) in prepayments and other current assets		( 1,347,692,217 )	( 177,825,258 )
Increase (decrease) in trade and other payables		( 1,526,007,062 )	( 1,930,213,539 )
Cash generated from (used in) operations		467,684,085	999,173,120
Cash paid for income taxes		( 238,324,765 )	( 76,683,052 )
Net Cash From (Used in) Operating Activities		<u>229,359,320</u>	<u>922,490,068</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of subsidiaries			
Acquisitions of property, plant and equipment		( 2,341,375,495 )	( 3,127,516,698 )
Advances to related parties		273,177,912	
Acquisitions of intangible assets		( 13,207,997 )	
Acquisition of subsidiary - PEPI, DUTA & Kaparangan		( 6,738,046,064 )	
Increase in other non-current assets		( 8,437,913 )	( 10,353,476 )
Interest received		16,683,436	3,926,218
Proceeds from disposal of property, plant and equipment		24,250,339	
Collections from related parties			( 256,317,236 )
Additional investment in an indirectly-owned joint venture			( 175,000,001 )
Increase in Land Held for Future Development		-	( 94,626,594 )
Net Cash Used in Investing Activities		<u>( 8,786,955,782 )</u>	<u>( 3,659,887,787 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from additional interest-bearing loans and borrowings		39,139,898,101	13,349,911,262
Repayments of interest-bearing loans and borrowings		( 27,523,956,782 )	( 10,957,026,118 )
Interest paid		( 552,487,034 )	( 480,515,241 )
Acquisition of treasury shares		( 109,407,705 )	( 218,554,434 )
Payments of cash dividends		( 282,390,883 )	( 260,484,679 )
Increase (decrease) in other non-current liabilities		14,355,753	617,857,760
Proceeds from issuance of shares of stock		12,268,800	-
Repayments to related parties		-	142,000,000
Net Cash From (Used in) Financing Activities		<u>10,698,280,250</u>	<u>2,193,188,550</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		2,140,683,789	( 544,209,169 )
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>2,338,780,526</u>	<u>1,631,788,201</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>P 4,479,464,315</u>	<u>P 1,087,579,032</u>

*See Notes to Consolidated Financial Statements.*



P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES  
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016  
(Amounts in Philippine Pesos)

Notes	<u>Capital Stock</u>									
	<u>Preferred Stock</u>	<u>Preferred Treasury Stock - At Cost</u>	<u>Common Stock</u>	<u>Common Treasury Stock - At Cost</u>	<u>Total</u>	<u>Additional Paid-in Capital</u>	<u>Revaluation Reserves</u>	<u>Other Reserves</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balance at January 1, 2017	P 30,000,000	( P 5,000,000 )	P 1,428,777,232	( P 330,679,783 )	P 1,123,097,449	P 5,320,816,182	-12,148,102	( 730,361,725 )	P 4,060,689,929	P 9,762,093,733
Deconsolidation of subsidiaries	-	-	-	-	-	-	-	-	-	-
Acquisition of shares during the year	-	-	-	( 109,407,705 )	( 109,407,705 )	-	-	-	-	( 109,407,705 )
Cash dividends	-	-	-	-	-	-	-	-	( 282,390,883 )	( 282,390,883 )
Share-based compensation	-	-	-	-	-	-	-	-	5,793,979	5,793,979
Issuance of shares - ESOP	-	-	2,160,000.00	-	P 2,160,000	P 16,703,046	-	-	( 6,890,581 )	11,972,465
Total comprehensive income for the year	-	-	-	-	-	-	-	-	1,436,622,196	1,436,622,196
Transfer of revaluation reserves absorbed through depreciation, net of tax	-	-	-	-	-	-	-	-	-	-
<b>Balance at September 30, 2017</b>	<b><u>P 30,000,000</u></b>	<b><u>( P 5,000,000 )</u></b>	<b><u>P 1,430,937,232</u></b>	<b><u>( P 440,087,488 )</u></b>	<b><u>P 1,015,849,744</u></b>	<b><u>P 5,337,519,228</u></b>	<b><u>( P 12,148,102 )</u></b>	<b><u>( P 730,361,725 )</u></b>	<b><u>P 5,213,824,640</u></b>	<b><u>P 10,824,683,785</u></b>
Balance at January 1, 2016	P 30,000,000	( P 5,000,000 )	P 1,428,777,232	p -	P 1,453,777,232	P 5,320,816,182	P 559,295,266	P (622,952,239)	P 3,312,425,742	P 10,023,362,183
Deconsolidation of subsidiaries	-	-	-	-	-	-	-	-	-	-
Acquisition of shares during the year	-	-	-	( 218,554,434 )	( 218,554,434 )	-	-	-	-	( 218,554,434 )
Cash dividends	-	-	-	-	-	-	-	-	( 260,484,679 )	( 260,484,679 )
Share-based compensation	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	903,789,524	903,789,524
Transfer of revaluation reserves absorbed through depreciation, net of tax	-	-	-	-	-	-	32,125,296	-	( 32,125,296 )	-
<b>Balance at September 31, 2016</b>	<b><u>P 30,000,000</u></b>	<b><u>( P 5,000,000 )</u></b>	<b><u>P 1,428,777,232</u></b>	<b><u>( P 218,554,434 )</u></b>	<b><u>P 1,235,222,798</u></b>	<b><u>P 5,320,816,182</u></b>	<b><u>P 591,420,562</u></b>	<b><u>( P 622,952,239 )</u></b>	<b><u>P 3,923,605,291</u></b>	<b><u>P 10,448,112,594</u></b>

See Notes to Consolidated Financial Statements.

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**SELECTED NOTES TO INTERIM CONDENSED**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*  
**(UNAUDITED)**

**1. CORPORATE INFORMATION**

***1.1 Incorporation and Operations***

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the Parent Company) was incorporated in the Philippines on May 8, 2002 and is 43.28% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines.

The Parent Company's shares of stock are listed with the Philippine Stock Exchange (PSE). The Parent Company is engaged in trading of petroleum products on wholesale basis and operating of oil depots, storage facilities and allied services. The registered office of the Parent Company, which is also its principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

PPHI, the major stockholder of the Parent Company, was incorporated in the Philippines and was registered with the Philippine Securities and Exchange Commission (SEC) on May 31, 2006. PPHI's primary purpose is to provide management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises. PPHI's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The ultimate parent is Udenna Corporation, which is primarily organized to purchase, acquire, take over and manage all or any part of the rights, assets, business and property; undertake and assume the liabilities of any person, firm, association, partnership, syndicate of corporation; and to engage in the distribution, selling, importation, installation of pollution control devices, units and services, and all other pollution control related products and emission test servicing. The ultimate parent company's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The Parent Company has a total of 523 opened retail service stations, and a total of 8 service stations under construction and/or about to open as of September 30, 2017.

***1.2 Subsidiaries, Associate, Joint Venture and their Operations***

The Parent Company holds ownership interests in the following entities, which are all incorporated in the Philippines:

Subsidiaries/ Associate	Explanatory Notes	Percentage of Ownership	
		Sept. 30, 2017	December 31, 2016
P-F-L Petroleum Management, Inc. (PPMI)	(a)	100.00%	100.00%
P-H-O-E-N-I-X Global Mercantile, Inc. (PGMI)	(b)	100.00%	100.00%
Subic Petroleum Trading and Transport Phils., Inc. (SPIT)	(c)	100.00%	100.00%
Phoenix Petroterminals & Industrial Park Corp. (PPIPC)	(d)	-	-
Chelsea Shipping Corp. (CSC)	(e)	-	-

Bunkers Manila, Inc. (BMI) *	(f)	-	-
Michael Inc. (MI)*	(g)	-	-
PNX – Chelsea Shipping Corp. (PNX – Chelsea)*	(h)	-	-
Chelsea Ship Management & Marine Services Corp. (CSMMSC)*	(i)	-	-
Fortis Tugs Corporation (FTC)* Norse/Phil Marine Services Corp. (NPMSC)**	(j)	-	-
	(k)	-	-
South Pacific, Inc. (SPI)***	(l)	-	-
Phoenix LPG Philippines, Inc. -PLPI (formerly Petronas Energy Philippines, Inc. - PEPI)	(m)	100%	-
Duta, Inc.	(n)	100%	-
Kaparangan, Inc.	(o)	100%	-

*\*Wholly-owned subsidiaries of CSC*

*\*\*Associate of CSC*

*\*\*\* Joint venture of PPIPC*

All the subsidiaries, associate and joint venture were organized and incorporated in the Philippines.

- (a) Incorporated on January 31, 2007 and is engaged in organizing, managing, administering, running and supervising the operations and marketing of various kinds of services-oriented companies such as petroleum service stations.
- (b) Incorporated on July 31, 2006 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. PGMI temporarily ceased its operation in 2008 and has resumed its business in October 2015 through selling of acid oil and coconut fatty acid distillates, both are by-products from manufacturing of coconut methyl ester.
- (c) Incorporated on February 20, 2007 and is engaged in buying and selling, supply and distribution, importation and exportation, storage and delivery of all types of petroleum for industrial, marine, aviation and automotive use.
- (d) Incorporated on March 7, 1996 and is engaged in real estate development and is also registered with the Housing and Land Use Regulatory Board under Executive Order No. 648 and was granted to sell parcels of land on PPIPC's project, the Phoenix Petroleum Industrial Park (the Park). PPIPC was sold to Udenna Development (Udevco) Corporation (UDEVCO) on November 24, 2016.
- (e) Incorporated in the Philippines on July 17, 2006 and started commercial operations on January 1, 2007 and 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. CSC was sold to Chelsea Logistics Corp. on November 24, 2016.
- (f) Incorporated on March 7, 2000 and is established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies. BMI is a subsidiary of CSC, which was sold to Chelsea Logistics Corp. (CLC) on November 24, 2016.
- (g) Incorporated on December 26, 1957 and is engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule. MI is also engaged in the trading of fuel oil. On May 6, 2008,

the SEC approved the extension of the Company's corporate life of another 50 years. MI is a subsidiary of CSC, which was sold to CLC on November 24, 2016.

- (h) Incorporated on February 2, 2011 and is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description. PNX-Chelsea is a subsidiary of CSC, which was sold to CLC on November 24, 2016.
- (i) Incorporated on March 30, 2012 and is engaged in the business of ship management and to act as agent, broker, ship Chandler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels. CSMMSC is a subsidiary of CSC, which was sold to CLC last November 24, 2016.
- (j) Incorporated on April 8, 2013 and is engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbours, and other waterways between the various ports of the Philippines, and acquire by purchase, charter, lease or modes recognized by law of obtaining title to or use of such equipment and properties, real or personal, which may be necessary to achieve such purpose. FTC is a subsidiary of CSC, which was sold to CLC on November 24, 2016.
- (k) Incorporated on January 30, 2013 and is engaged in the business of providing technical ship services and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals, and to equip any and all kinds of ships, barges and vessels of every class and description owned by any shipping corporation. In 2015, CSC disposed all of its ownership interest in the associate.
- (l) Incorporated on March 27, 2014 and is engaged in bulk or wholesale supply and distribution of liquefied petroleum gas and other petroleum products, which also includes importation, storage, and wholesale, refilling thereof and to operate and maintain storage terminals, equipment and transport facilities to be used therein. SPI is an associate of PPIPC, which was sold to UDEVCO on November 24, 2016.
- (m) Incorporated on June 20, 1995, PLPI (formerly PEPI) is engaged in buying, selling, storing, distributing and marketing at wholesale of all kinds of goods, including but not limited to liquefied petroleum gas (LPG) and other petroleum products.
- (n) Incorporated on November 9, 1994, Duta, Inc. is engaged in the business of buying, investing, exchanging, selling securities of every kind and description, and leasing land.
- (o) Incorporated on January 21, 1994, Kaparangan is engaged in the business of buying, investing, exchanging, selling securities of every kind and description, and leasing land.

### ***1.3 Other Corporate Information***

The registered office and principal place of business of the subsidiaries, except those presented below, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

SPTT	– Units 113 and 115 Subic International Hotel, Alpha Building, Rizal Highway, Subic Bay Freeport Zone, Zambales.
CSMMSC and FTC	– 26/F, Fort Legend Towers, 3rd Ave. corner 31st Street, Bonifacio Global City, Taguig City
NPMSC	– 2/F Harbor Centre II Bldg., Railroad and Delgado Sts., South Harbor, Port Area, Manila

SPI

– Puting Bato West, Calaca, Batangas

PPMI's registered office is located at Penthouse, Valero Tower, 122 Valero Street, Salcedo Village, Makati City and its principal place of business is located at 26<sup>th</sup> Floor, The Fort Legend Tower, 3<sup>rd</sup> Avenue corner 31<sup>st</sup> Street, The Fort Global City, Taguig City.

PPIPC's registered office address is at 26<sup>th</sup> Floor, The Fort Legend Tower, 3<sup>rd</sup> Avenue Corner 31<sup>st</sup> Street, The Fort Global City, Taguig City and its principal place of business is located at Km. 117, National Highway, Calaca, Batangas.

PLPI's new registered address is at Phoenix Petroleum Philippines Corporate Headquarters, Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City (as amended on October 2, 2017).

The registered address of Duta, Inc. is 15<sup>th</sup> Floor, Citibank Tower, Valero St., Salcedo Village, Makati City.

Kaparangan's registered address is 15<sup>th</sup> Floor, Citibank Tower, Valero St., Salcedo Village, Makati City.

#### ***1.4 Disposal of Investment of Shares of CSC and PPIPC***

On November 24, 2016, the Parent Company sold its entire investments in CSC to CLC for P2,000.0 million, and in PPIPC to UDEVCO for P1,000.0 million. CLC and UDEVCO are related parties under common ownership. Business combinations and disposals that are under common ownership are accounted for under the pooling-of-interest method. The account balances of CSC and PPIPC were deconsolidated in the 2016 year-end consolidated financial statements. The difference between the considerations received and net asset values as of disposal date of CSC and PPIPC amounting to P730.4 million was recognized and presented as Other Reserves in the 2016 year-end consolidated statement of financial position.

#### ***1.5 Approval of Interim Condensed Consolidated Financial Statements***

The interim condensed consolidated financial statements (unaudited) of the Group as of and for the nine months ended September 30, 2017 (including the comparative consolidated financial information as of December 31, 2016 and for the nine months ended September 30, 2016) were authorized for issue by the Parent Company's Board of Directors (BOD) on October \_\_, 2017.

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

The significant accounting policies that have been used in the preparation of these interim condensed consolidated financial statements are summarized in the succeeding pages. The policies have been consistently applied to all the periods presented, unless otherwise stated.

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

These interim condensed consolidated financial statements for the nine months ended September 30, 2017 and 2016 have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. They do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended December 31, 2016.

The preparation of interim condensed consolidated financial statements in accordance with Philippine Financial Reporting Standards (PFRS) requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets

and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

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

## **2.2 Adoption of New and Amended PFRS**

### **(a) Effective in 2017 that are Relevant to the Group**

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods beginning on or after January 1, 2017. Among those new PFRS, amendments and annual improvements, presented in the succeeding pages are relevant to the Group but did not have any significant impact on the Group's financial statements.

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the consolidated statement of financial position including those changes identified immediately above.
- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.
- (iii) PFRS 2 (Amendments), *Share-based Payments – Classification and Measurement of Share-based Payment Transactions*. The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management assessed that no significant impact in the consolidated financial statements of the Group.

(b) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's financial statements:

- (i) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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 arrangements, 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 amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management is currently assessing the impact of PFRS 9 (2014) on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (ii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right of use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to as financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17’s. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17’s. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its consolidated financial statements.

- (iii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor’s financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor’s interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.
- (iv) PFRS 15, *Revenue from Contracts with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*, effective January 1, 2018. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the



customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Management is currently assessing the impact of this standard on the Group's financial statements.

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

In preparing the interim condensed consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. The judgments, estimates and assumptions applied in the interim condensed consolidated financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements as of and for the year ended December 31, 2016.

The Group performed its annual impairment test of goodwill and other intangible assets with indefinite useful life at year end and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill arising from business combination and other intangible assets is based on value-in-use calculations. The Group considers the relationship between the market capitalization of the subsidiaries and its net book value, among other factors, when reviewing for indicators of impairment. The Group's management assessed that for the nine months ended September 30, 2017 and as of December 31, 2016, goodwill arising from business combination and other intangible assets with indefinite useful life are not impaired.

### **4. SEGMENT INFORMATION**

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products or services and serves different markets. The Group's trading segment is engaged in marketing, merchandising, purchasing, selling, acquiring, disposing and distribution of goods and wares such as but not limited to petroleum products (on wholesale basis), lubricants and other products. The Group is also engaged in operating of oil depots, storage facilities and provides logistics services to various entities on its Depot and Logistics Services segment. The shipping and cargo services segment is engaged in hauling of petroleum products, operation of inter-island going vessels for domestic trade, chartering in and out any such vessels and providing complete marine services, either as principal or agent ship owners, operators and managers. The Group's real estate segment is involved in real estate development, management and operations. The shipping and cargo segments were sold to Chelsea Logistics Corp. (CLC) and UDEVCO in 2016. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

As of September 30, 2017, there have been no change from prior periods in the measurement methods used to determine operating segments and reported segment revenues, expenses and performance.

The succeeding table presents revenue and profit information regarding segments for the nine months ended September 30, 2017 and 2016 and certain asset and liability information regarding segments as at September 30, 2017 and December 31, 2016 (amounts in thousands).

	<u>Trading</u>		<u>Depot and Logistics</u>		<u>Shipping and Cargo Services</u>		<u>Real Estate</u>		<u>Total</u>	
	Sept. 30, 2017 (Unaudited)	Sept. 30, 2016 (Unaudited)	Sept. 30, 2017 (Unaudited)	Sept. 30, 2016 (Unaudited)	Sept. 30, 2017 (Unaudited)	Sept. 30, 2016 (Unaudited)	Sept. 30, 2017 (Unaudited)	Sept. 30, 2016 (Unaudited)	Sept. 30, 2017 (Unaudited)	Sept. 30, 2016 (Unaudited)
<b>TOTAL REVENUES</b>										
Sales to external customers	P 32,341,840	P 21,422,451	P 200,130	P 233,912	P -	P 487,560	P 14,421	P 128,095	P 32,556,391	P 22,272,018
Intersegment sales	<u>51,979</u>	<u>621,812</u>	<u>67,334</u>	<u>282,500</u>	<u>-</u>	<u>721,029</u>	<u>-</u>	<u>32,804</u>	<u>119,313</u>	<u>1,658,145</u>
Total revenues	<u>32,393,819</u>	<u>22,044,263</u>	<u>267,464</u>	<u>516,412</u>	<u>-</u>	<u>1,208,589</u>	<u>14,421</u>	<u>160,899</u>	<u>32,675,704</u>	<u>23,930,163</u>
<b>COSTS AND OTHER OPERATING EXPENSES</b>										
Cost of sales and services excluding depreciation and amortization	30,588,765	20,663,134	183,000	127,020	-	1,010,105	13,749	92,362	30,785,514	21,892,621
Depreciation and amortization	<u>211,670</u>	<u>279,727</u>	<u>363,174</u>	<u>83,343</u>	<u>-</u>	<u>213,778</u>	<u>0</u>	<u>31,669</u>	<u>574,844</u>	<u>608,517</u>
	<u>30,800,435</u>	<u>20,942,861</u>	<u>546,174</u>	<u>210,363</u>	<u>-</u>	<u>1,223,883</u>	<u>13,750</u>	<u>124,031</u>	<u>31,360,359</u>	<u>22,501,138</u>
<b>SEGMENT OPERATING PROFIT (LOSS)</b>	<u>P 1,593,384</u>	<u>P 1,101,402</u>	<u>P (278,710)</u>	<u>P 306,049</u>	<u>P -</u>	<u>P (15,294)</u>	<u>P 671</u>	<u>P 36,868</u>	<u>P 1,351,345</u>	<u>P 1,429,025</u>
	<u>Trading</u>		<u>Depot and Logistics</u>		<u>Shipping and Cargo Services</u>		<u>Real Estate</u>		<u>Total</u>	
	Sept. 30, 2017 (Unaudited)	December 31, 2016 (Audited)	Sept. 30, 2017 (Unaudited)	December 31, 2016 (Audited)	Sept. 30, 2017 (Unaudited)	December 31, 2016 (Audited)	Sept. 30, 2017 (Unaudited)	December 31, 2016 (Audited)	Sept. 30, 2017 (Unaudited)	December 31, 2016 (Audited)
<b>ASSETS AND LIABILITIES</b>										
Segment assets	P 32,779,181	P 26,341,954	P 3,530,754	P 315,121	P -	P -	P -	P -	P 36,309,935	P 26,657,074
Segment liabilities	26,954,497	16,702,349	706,151	195,875	-	-	-	-	27,660,648	16,898,224

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its interim condensed consolidated financial statement (in thousands).

	Sept. 30, 2017 <u>(Unaudited)</u>	Sept. 30, 2016 <u>(Unaudited)</u>
<b>Revenues</b>		
Total segment revenues	P 32,675,704	P 23,930,163
Elimination of intersegment revenues	( 119,313)	( 1,658,145)
Revenues as reported in profit or loss	<u>P 32,556,391</u>	<u>P 22,272,018</u>
<b>Profit or loss</b>		
Segment operating profit	P 1,315,345	P 1,429,025
Other unallocated income	650,515	
Other unallocated expense	( )	( )
Operating profit as reported in profit or loss	1,965,860	1,429,025
Finance costs	( 593,122)	( 541,834)
Finance income	<u>63,884</u>	<u>16,598</u>
Profit before tax as reported in profit or loss	<u>P 1,436,622</u>	<u>P 903,789</u>
	September 30, 2017 <u>(Unaudited)</u>	December 31, 2016 <u>(Audited)</u>
<b>Assets</b>		
Segment assets	P 36,309,935	P 26,610,882
Deferred tax asset – net		46,192
Elimination of intercompany accounts	( 3,530,754)	( 119,036)
Total assets reported in the consolidated statement of financial position	<u>P 32,779,181</u>	<u>P 26,538,038</u>
<b>Liabilities</b>		
Segment liabilities	P 27,660,648	P 16,898,224
Deferred tax liabilities - net	-	-
Elimination of intercompany accounts	( 706,151)	( 122,280)
Total liabilities as reported in the consolidated statement of financial position	<u>P 26,954,497</u>	<u>P 16,775,944</u>

## 5. CATEGORIES, FAIR VALUE MEASUREMENTS AND DISCLOSURES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 5.1 Carrying Amounts and Fair Values by Category

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

	September 30, 2017 (Unaudited)		December 31, 2016 (Audited)	
	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	P 4,479,464,315	P 4,479,464,315	P 2,338,780,526	P 2,338,780,526
Trade and other receivables-net*	7,872,302,215	7,872,302,215	8,039,947,280	8,039,947,280
Due from related parties	966,470,913	966,470,913	1,506,997,926	1,506,997,926
Restricted deposits	51,010,908	51,010,908	50,925,404	50,925,404
Refundable rental deposits	<u>149,570,892</u>	<u>149,570,892</u>	<u>140,817,250</u>	<u>140,817,250</u>
	<b>P 13,518,819,243</b>	<b>P 13,518,819,243</b>	<b>P 12,077,468,386</b>	<b>P 12,077,468,386</b>
<b>Financial Liabilities</b>				
Financial liabilities at amortized cost:				
Interest-bearing loans and borrowings	P 24,477,505,409	P 24,477,505,409	P 13,184,423,843	P 13,184,423,843
Trade and other payables**	2,020,130,656	2,020,130,656	3,152,398,546	3,152,398,546
Security deposits	<u>268,642,919</u>	<u>268,642,919</u>	<u>219,790,571</u>	<u>219,790,571</u>
	<b>P 26,766,278,985</b>	<b>P 26,766,278,985</b>	<b>P 16,556,612,960</b>	<b>P 16,556,612,960</b>

\* Excludes certain advances to suppliers and advances subject to liquidation

\*\* Excludes tax-related payable

## **5.2 Fair Value Hierarchy**

The Group uses the following hierarchy level in determining the fair values that will be disclosed for its financial instruments.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

## **5.3 Valuation Methods and Assumptions**

The fair value of the financial assets and liabilities is the amount at which the asset could be sold or the liability transferred in a current transaction between market participants, other than in a forced or liquidation sale. The fair value of loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. The valuation requires management to use unobservable inputs in the model. Management regularly assesses a range of reasonably possible alternatives for the significant unobservable inputs and determines their impact on the total fair value.

#### 5.4 Fair Value Hierarchy of Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the interim condensed consolidated statements of financial position but for which fair value is disclosed.

September 30, 2017 (Unaudited)				
	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
<i>Loans and receivables:</i>				
Cash and cash equivalents	P 4,479,464,315	P -	P -	P 4,479,464,315
Trade and other receivables - net	-	-	7,872,302,215	7,872,302,215
Due from related parties	-	-	966,470,913	966,470,913
Restricted deposits	51,010,908	-	-	51,010,908
Refundable rental deposits	-	-	149,570,892	149,570,892
	<b><u>P 4,530,475,223</u></b>	<b><u>P -</u></b>	<b><u>P 8,988,344,020</u></b>	<b><u>P 13,518,819,243</u></b>
<b>Financial Liabilities</b>				
<i>Financial liabilities at amortized cost:</i>				
Interest-bearing loans and borrowings	P -	P -	P 24,477,505,409	P 24,477,505,409
Trade and other payables	-	-	2,020,130,656	2,020,130,656
Security deposits	-	-	268,642,919	268,642,919
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 26,766,278,985</u></b>	<b><u>P 26,766,278,985</u></b>
December 31, 2016 (Audited)				
	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
<i>Loans and receivables:</i>				
Cash and cash equivalents	P 2,338,780,526	P -	P -	P 2,338,780,526
Trade and other receivables - net	-	-	8,039,947,280	8,039,947,280
Due from related parties	-	-	1,506,997,926	1,506,997,926
Restricted deposits	50,925,404	-	-	50,925,404
Refundable rental deposits	-	-	140,817,250	140,817,250
	<b><u>P 2,389,705,930</u></b>	<b><u>P -</u></b>	<b><u>P 9,687,762,456</u></b>	<b><u>P 12,077,468,386</u></b>
<b>Financial Liabilities</b>				
<i>Financial liabilities at amortized cost:</i>				
Interest-bearing loans and borrowings	P -	P -	P 13,184,423,843	P 13,184,423,843
Trade and other payables	-	-	3,152,398,546	3,152,398,546
Security deposits	-	-	219,790,571	219,790,571
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 16,556,612,960</u></b>	<b><u>P 16,556,612,960</u></b>

For financial assets with fair value included in Level 1, management considers that the carrying amount of this short-term financial instrument approximates their fair values.

## 6. 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 its Parent 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.

### 6.1 Market Risk

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

#### (a) Foreign Currency Risk

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 and tanker importations, which are primarily denominated in U.S. dollars (US\$). The liability covering the fuel importation is covered by letter of credits (LCs) which is subsequently closed to Philippine peso trusts receipts (TRs). Further, the Group has several U.S. dollar loans from certain banks, which were used to finance its capital expenditures. The Group also holds U.S. dollar-denominated cash and cash equivalents.

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

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

	September 30, 2017 <u>(Unaudited)</u>	December 31, 2016 <u>(Audited)</u>
Financial assets	P 116,597,270	P 5,678,959,607
Financial liabilities	( <u>615,675,816</u> )	( <u>350,848,259</u> )
Net exposure	(P <u>499,078,546</u> )	P <u>5,328,111,348</u>

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 nine (9) and twelve (12) months, respectively, at a 99% confidence level.

	<b>September 30, 2017 <u>(Unaudited)</u></b>	<b>December 31, 2016 <u>(Audited)</u></b>
Reasonably possible change in rate	<b>18.261%</b>	12.93%
Effect in profit before tax	<b>P 91,135,049</b>	P 688,924,797
Effect in equity after tax	<b>63,794,535</b>	482,247,358

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 Risk*

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 of September 30, 2017 and December 31, 2016, the Group is exposed to changes in market interest rates through its cash and cash equivalents and certain interest-bearing loans and borrowings which are subject to variable interest rates. All other financial assets and financial liabilities have fixed rates.

Cash in banks are tested on a reasonably possible change of +/- 0.43% and +/-0.54% as of September 30, 2017 and December 31, 2016, respectively. Banks loans subject to variable interest rates are tested on a reasonably possible change of +/-0.38% and +/-0.32% for Philippine peso and +/-0.48% and +/-0.25% for U.S. dollar as of September 30, 2017 and December 31, 2016, respectively. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in previous nine (9) and twelve (12) months estimated at 99.00% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/-P111.3 million and +/-P45.0 million for the six months ended September 30, 2017 and for the year ended December 31, 2016, respectively, and equity after tax by +/-P77.9 million and +/-P31.5 million the nine months ended September 30, 2017 and for the year ended December 31, 2016, respectively.

*(c) Other 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.



## 6.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting of loans and selling goods and services to customers including related parties; 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 in the consolidated statements of financial position or in the detailed analysis provided in the notes to the consolidated financial statements, as follows.

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Cash and cash equivalents	<b>P 4,479,464,315</b>	P 2,338,780,526
Trade and other receivables – net*	<b>7,872,302,215</b>	8,039,947,280
Due from related parties	<b>966,470,913</b>	1,506,997,926
Restricted deposits	<b>51,010,908</b>	50,925,404
Refundable rental deposits	<b><u>149,570,892</u></b>	<u>140,817,250</u>
	<b><u>P13,518,819,243</u></b>	<u>P12,077,468,386</u>

*\*excluding certain advances to suppliers and advances subject to liquidation*

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.

None of the financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

### (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 P0.5 million for every depositor per banking institution.

### (b) Trade and Other Receivables and Due from Related Parties

In respect of trade and other receivables and due from related parties, 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 Risk Management Unit (formerly 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 presented below.

	<b>September 30, 2017 <u>(Unaudited)</u></b>	December 31, 2016 <u>(Audited)</u>
Not more than one month	<b>P 405,639,374</b>	P 2,337,949,143
More than one month but not more than two months	<b>80,243,061</b>	57,804,099
More than two months but not more than six months	<b>166,014,165</b>	83,468,815
More than six months but not more than one year	<b>203,179,187</b>	902,428,898
More than one year	<b><u>304,934,122</u></b>	<u>5,249,731,017</u>
	<b><u>P 1,160,009,909</u></b>	<u>P 8,631,381,972</u>

In respect of due from a related party, the Group has assessed that these advances are collectible and the credit risk exposure is considered to be low.

### **6.3 Liquidity Risk**

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 periods. 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.

This compares to the maturity of the Group's financial liabilities as of September 30, 2017 (Unaudited) as presented below.

	<u>Current</u>		<u>Non-current</u>
	<u>Within 6 months</u>	<u>6 to 12 months</u>	<u>1 to 5 years</u>
Interest-bearing loans and borrowings	P15,780,505,409	P 247,000,000	P 8,450,000,000
Trade and other payables (excluding tax-related payables)	2,020,130,656		
Security deposits	-	-	268,642,919
	<u>P17,800,636,065</u>	<u>P 247,000,000</u>	<u>P 8,718,642,919</u>

As of December 31, 2016 (Audited), the Group's financial liabilities have contractual maturities which are summarized as follows:

	<u>Current</u>		<u>Non-current</u>
	<u>Within 6 months</u>	<u>6 to 12 months</u>	<u>1 to 5 years</u>
Interest-bearing loans and borrowings	P 10,386,388,575	P 2,826,900,125	P 2,528,962,920
Trade and other payables (excluding tax-related payables)	3,152,398,546	-	-
Security deposits	-	-	219,790,571
	<u>P 13,538,787,121</u>	<u>P 2,826,900,125</u>	<u>P 2,748,753,491</u>

## 7. INVENTORIES

Inventories which are stated at cost, which is lower than its net realizable value, are broken down as follows:

	<u>September 30, 2017 (Unaudited)</u>	<u>December 31, 2016 (Audited)</u>
Fuels	P3,625,464,282	P2,662,777,903
Lubricants	388,474,253	335,929,379
LPG	97,269,760	-
Others	<u>902,074</u>	<u>72,864</u>
	<u>P 4,112,110,369</u>	<u>P 2,998,780,146</u>

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying amount of P3,625.4 million and P2,223.9 million as of September 30, 2017 and December 31, 2016, respectively, have been released to the Group in trust for by the bank. The Group is accountable to the bank for the trusted inventories or their sales proceeds.

There was no inventory write-down in all of the periods presented.

## 8. PROPERTY, PLANT AND EQUIPMENT

The reconciliation of the carrying amounts of property, plant and equipment is shown below.

	Note	<u>September 30,</u>		December 31,
		<u>2017</u>	<u>2016</u>	<u>2016</u>
		<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Balance at beginning of period		<b>P 9,002,313,141</b>	P 12,843,003,318	P 12,843,003,318
Disposals due to deconsolidation				( 5,051,865,080 )
Additions		<b>4,447,518,256</b>	3,046,584,374	2,217,622,320
Transfers to intangible assets	8			16,423,389
Disposals – net				( 2,434,359 )
Reclassifications/adjustments				( 3,180,191 )
Depreciation and amortization		<u>( 574,845,195 )</u>	<u>( 608,516,836 )</u>	<u>( 984,409,478 )</u>
Balance at end of the period		<b><u>P 12,874,986,202</u></b>	<b><u>P 15,281,070,856</u></b>	<b><u>P 9,002,313,141</u></b>

## 9. INTANGIBLE ASSETS

The reconciliation of the carrying amounts of intangible assets is shown below.

	Note	<u>September 30,</u>		December 31,
		<u>2017</u>	<u>2016</u>	<u>2016</u>
		<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Balance at beginning of period		<b>P 275,037,490</b>	P 72,384,461	P 72,384,461
Additions		<b>13,307,997</b>	193,786,863	203,908,603
Transfer from property, plant and equipment	7	-		16,423,389
Amortization expense for the period		<u>( 22,662,294 )</u>	<u>( 8,244,304 )</u>	<u>( 17,678,963 )</u>
Balance at end of the period		<b><u>P 265,583,193</u></b>	<b><u>P 257,937,020</u></b>	<b><u>P 275,037,490</u></b>

## 10. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings are broken down as follow:

	<u>September 30,</u> <u>2017</u> <u>(Unaudited)</u>	December 31, 2016 <u>(Audited)</u>
Current:		
Liabilities under LC and TR	<b>P 4,706,717,727</b>	P 2,163,936,859
Term loans	<b>10,206,960,052</b>	7,989,944,730
Liabilities under short-term commercial papers	<b>1,113,827,629</b>	1,107,711,982
Obligations under finance lease	<u>-</u>	<u>1,265,272</u>
	<b><u>16,027,505,408</u></b>	<b><u>11,262,858,843</u></b>
Non-current:		
Term loans	<b><u>8,450,000,000</u></b>	<b><u>1,921,565,000</u></b>
	<b><u>P24,477,505,408</u></b>	<b><u>P13,184,423,843</u></b>

### 10.1 Liabilities under Letters of Credits and Trust Receipts

The Group avails of LC and TR lines with local banks to finance its purchases of inventories. These short-term trust receipts bear interests based on prevailing market interest rates at an average of 3.00% and 4.04% per annum as of September 30, 2017 and December 31, 2016, respectively.

### 10.2 Borrowings and Repayments

During the period, the Group obtained various term loans with banks in the total amount of P9,763.8 million with outstanding balance as of September 30, 2017 of P9,485.8 million. The loans bear interest ranging from 3.20% to 4.25% and are repayable in various dates until December 31, 2017. As of September 30, 2017, repayments of other term loans amounting to P 1,178.5 million were made in line with previously disclosed repayment terms.

## 11. RELATED PARTY TRANSACTIONS

The Group's related parties include the ultimate Parent Company, PPHI, stockholders, the Group's key management personnel, entities under common ownership by the ultimate parent Company and others as described in the succeeding pages.

The summary of the Group's transactions with its related parties for the periods ended September 30, 2017 and December 31, 2016 and the related outstanding balances as of September 30, 2017 and December 31, 2016 is presented below.

Related Party Category*	Amount of Transactions		Outstanding Balance	
	Sept. 30, 2017 (Unaudited)	December 31, 2016 (Audited)	Sept. 30, 2017 (Unaudited)	December 31 2016 (Audited)
<b>Other related parties under common ownership</b>				
Sale of subsidiaries	P -	P -	P 500,000,000	P 550,000,000
Sale of goods*	103,230,562	22,168,571	107,504,189	157,624,601
Purchases of services*	668,813,118	4,566,971	38,829,222	457,557,815
Advances to suppliers*	-	(24,800)	-	-
Management fees	-	-	86,598,808	88,737,836
Rentals	70,497,544	73,702,144	45,269,175	3,104,344
Due from related parties*	13,834,791	1,887,086	961,964,007	1,506,977,926
Due to related parties	-	-	-	-
Donations	-	100,000	-	-
<b>Udenna Corporation</b>				
Advances to suppliers	-	378,294,800	438,294,800	438,294,800
Rentals	4,736,649	7,654,678	-	621,000
<b>Associate</b>				
Technical ship Services	-	-	-	-
<b>Key management personnel</b>				
Salaries and employee benefits	49,059,672	63,672,434	-	-

*\*As a result of the deconsolidation of PPIPC and CSC (see Note 1.4), these formerly wholly-owned subsidiaries fall under related party under common ownership in 2016.*

### ***11.1 Sale of Goods***

The Group sells products to certain related parties under common ownership. Goods are sold on the basis of the price lists in force with non-related parties. The outstanding receivables from related parties are unsecured, do not bear any interest and collectible in cash on demand. No impairment loss was recognized for the nine months ended September 30, 2017 and 2016 based on management's assessment.

### ***11.2 Purchases of Goods and Services***

The Group purchased goods and services from related parties on the basis of price lists in force with non-related parties. The outstanding balances are unsecured, non-interest bearing, payable on demand and normally settled in cash.

In addition, the Group advances certain amount to certain related parties for the purchase of services. The amount is credited upon the performance of the contractual obligation by the related parties. Management has assessed that there are no impairment losses required to be recognized on the advances to suppliers as of the nine months ended September 30, 2017 and 2016.

### ***11.3 Due from Related Parties***

The Group grants and obtains unsecured advances to and from related parties under common ownership for working capital requirements and other purposes. Due from Related Parties (excluding advances to PPIPC) are either receivable in cash or paid through offsetting, unsecured non-interest-bearing liabilities and are expected to be paid within one year.

### ***11.4 Disposal and Acquisition of Subsidiaries***

There are no disposals of subsidiaries for the nine months ended September 30, 2017.

However, on November 24, 2016, the Parent Company disposed its equity share in CSC to CLC, and in PPIPC to UDEVCO. Total consideration of the sale of subsidiaries amounted to P3,000.0 million, in which a total of P500.0 million is still receivable from CLC.

The Parent Company acquired Petronas Energy Philippines, Inc. (PEPI), Duta Inc. And Kapangan, Incorporated last August 15, 2017. PEPI is now renamed Phoenix LPG Philippines, Inc.

## 12. EQUITY

### 12.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	For the nine months ended September 30, (Unaudited)	For the year ended December 31, 2016 (Audited)		For the nine months ended September 30, (Unaudited)	For the year ended December 31, 2016 (Audited)	
	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</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>50,000,000</u>	<u>P 50,000,000</u>	<u>P 50,000,000</u>	<u>P 50,000,000</u>
Issued:						
Balance at beginning of period	30,000,000	30,000,000	30,000,000	P 30,000,000	P 30,000,000	P 30,000,000
Issuance during the period	-	-	-	-	-	-
Balance at end of period	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Treasury shares	( 5,000,000)	( 5,000,000)	( 5,000,000)	( 5,000,000)	( 5,000,000)	( 5,000,000)
Issued and outstanding	<u>25,000,000</u>	<u>25,000,000</u>	<u>5,000,000</u>	<u>P 25,000,000</u>	<u>P 25,000,000</u>	<u>P 25,000,000</u>
Common – P1 par value						
Authorized:	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>P 2,500,000,000</u>	<u>P 2,500,000,000</u>	<u>P 2,500,000,000</u>
Issued:						
Balance at beginning of period	1,374,383,932	1,428,777,232	1,428,777,232	P 1,098,097,449	P 1,428,777,232	P 1,428,777,232
Employee Stock Option	2,160,000			2,160,000		
Treasury shares	( 15,800,100)	( 35,215,600 )	( 54,393,300)	( 109,407,705)	( 218,554,434)	( 330,679,783)
Balance at end of period	<u>1,360,743,832</u>	<u>1,393,561,632</u>	<u>1,374,383,932</u>	<u>P 990,849,744</u>	<u>P 1,210,222,978</u>	<u>P 1,098,097,449</u>
				<u>P 1,015,849,744</u>	<u>P 1,235,222,978</u>	<u>P 1,123,097,449</u>

### 12.2 Employee Stock Options

There were neither employee stock options granted nor vested for the nine months ended September 30, 2016. However, a total of 3,976,357 shares are vesting on July 1, 2017. A total of 5.79 million was recognized as share-based compensation for the nine months ended September 30, 2017 while there were no share-based compensation recognized for the nine months ended September 30, 2016.

### 12.3 Cash Dividends

The details of the Parent Company's cash dividend declarations, both for preferred and common shares, for the nine months ended September 30 (unaudited) are as follows:

	<u>2017</u>	<u>2016</u>
Common shares	<b>P 136,208,383</b>	P 114,302,179
Preferred shares	<u><b>146,182,500</b></u>	<u>146,182,500</u>
	<u><b>P 282,390,883</b></u>	<u>P 260,484,679</u>

Of the total amount of dividends declared, dividend payments for preferred shares amounted to P146, 182, 500 for both of the nine months ended September 30, 2017 and 2016.

### 12.4 Other Interim Disclosures

The Group's management is not aware of the following or is not applicable to the Group's interim operations:

- Unusual items that materially affect the Group's interim condensed consolidated assets, liabilities, equity, net income or cash flows because of their size, nature or incidents;
- Issuances of equity securities;
- Material changes in contingent liabilities or contingent assets since the last annual balance sheet date;
- Existence of material contingencies and other events of transactions that are material to an understanding of the current interim period;
- Events that will trigger direct or contingent material financial obligations to the Group;
- Material off-balance sheet transactions, arrangements, obligations (direct or contingent) and other relationships of the Group;
- Significant elements of income or loss that did not arise from the Group's continuing operations;
- Material events subsequent to end of the reporting period that have not been reflected in this report;
- Material changes in the composition of the Group, including business combination, acquisition or disposal of subsidiaries, restructurings and discontinuing operations; and,
- Any seasonal aspect that had a material effect on the consolidated financial condition or results of operation.



### 13. EARNINGS PER SHARE

EPS were computed as follows:

	For the three months ended September 30, (Unaudited)		For the year ended December 31, 2016 (Audited)
	2017	2016	
a) Net profit pertaining to common shares	<b>P 1,290,439,696</b>	P 757,607,024	P 902,592,062
b) Net profit attributable to common shares and potential common shares	<b>1,290,439,696</b>	757,607,024	902,592,062
c) Weighted average number of outstanding common shares	<b>1,398,209,098</b>	1,413,584,738	1,410,964,421
d) Weighted average number of outstanding common and potential common shares	<b>1,398,209,098</b>	1,413,584,738	1,414,736,438
Basic EPS (a/c)	<u>P 0.92</u>	<u>P 0.54</u>	<u>P 0.64</u>
Diluted EPS (b/d)	<u>P 0.92</u>	<u>P 0.54</u>	<u>P 0.64</u>

The potential dilutive common shares totalling 3,772,017 shares in relation to the unexercised share warrants were considered in the computation of diluted EPS for all the periods presented.

### 14. COMMITMENTS AND CONTINGENCIES

As of September 30, 2017 and December 31, 2016, the Group has commitments of more than P1,500.0 and P2,800.0 million, respectively, for expansion on petroleum retail network, depot, terminaling and logistics facilities, information technology infrastructure and other major expansions or acquisitions related to its business development. The Group has a network of 523 and 505 operating retail service stations as of September 30, 2017 and December 31, 2016, respectively. An additional of 8 and 16 retail service stations are under various stages of completion as of September 30, 2017 and December 31, 2016, respectively.

The Group plans to expand further its petroleum retail service stations and carry out its investments in its subsidiaries to put up depot and terminaling facilities in strategic locations and complete its chain of logistical support to strengthen its foothold in the industry.

As of September 30, 2017 and December 31, 2016, the Parent Company has unused credit facilities amounting to P11,956.3 million and P10,660.0 million, respectively.

There are commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group which are not reflected in the accompanying interim condensed consolidated financial statements. Management of the Group is of the opinion, that losses, if any, from these items will not have any material effect on its interim condensed consolidated financial statements.

In addition, there are no material off-balance sheet transactions, arrangements, obligations and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

**15. EVENTS AFTER THE REPORTING PERIOD**

There are no material events that occurred subsequent to the interim period that is required to be recorded or disclosed in these interim condensed consolidated financial statements.

**16. SEASONAL FLUCTUATIONS**

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Group.

## **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 Nine Months Ended September 30, 2017 vs. September 30, 2016.

### **Revenues**

The Group generated total revenues of ₱32.274 billion as of September 30, 2017 which was 48% higher than 2016's ₱22.012 billion. This is primarily due to the 19% increase in the total volume sold compared to the same period of last year, inclusive of the newly-acquired LPG business.

Sales revenues from trading and distribution of petroleum products increased by 52% from ₱21.177 billion in 2016 to ₱32.274 billion in 2017, of which ₱2.249 billion is from the LPG business. This is brought by the increase in volume and fuel prices and acquisition of the LPG unit.

The increase in revenue came from the completed five hundred twenty-three (523) Phoenix retail service stations as of September 30, 2017 and additional one hundred ninety-seven (197) new direct accounts into its growing commercial business portfolio.

The Group generated revenues of ₱0.282 billion from fuel services, storage and others in 2017, versus ₱0.84 billion in 2016. The revenue from fuel services, storage and others in 2016 included shipping, port and real estate from the spun off subsidiaries Chelsea Shipping Corporation (CSC) and Phoenix Petroterminals and Industrial Park Corp. (PPIPC).

### **Cost and expenses**

The Group recorded cost of sales and services of ₱27.838 billion as of September 30, 2017, an increase of 54% from ₱18.076 billion in 2016. This is due to higher product costs compared to last year, reflecting global oil price movements as well as the additional costs from the LPG unit.

Selling and administrative expenses increased by 26%, driven by higher rent expenses, depreciation, salaries and wages and other operating expenses in relation to the expansion and acquisition programs of the Group.

### **Net Income**

The Group's net income for the nine months period of 2017 grew by 87% to ₱1,690.38 million from ₱903.78 million in the same period of 2016, inclusive of the pre-acquisition cost net income after tax from the newly-acquired companies, Phoenix LPG Philippines Inc. (PLPI, formerly Petronas Energy Philippines, Inc. (PEPI)), Duta, Inc. and Kaparangan, Inc. The 2016 net income after tax is inclusive of the profit from the spun-off subsidiaries, PPIPC and CSC.

The group recognized a one-time gain related to the excess of fair value of net assets in the acquisition of Duta and Kaparangan amounting to ₱650.52 million.

The newly-acquired LPG business Phoenix LPG Philippines, Inc. had a pre-acquisition income net income before tax of ₱253.76 million.

### **Financial Condition**

*(As of September 30, 2017 versus December 31, 2016)*

Total resources of the Group as of September 30, 2017 stood at ₱37.776 billion, higher by 42% compared to the ₱26.538 billion as of December 31, 2016. This is mainly due to acquisition of the LPG business, PLPI, particularly on the increases in Property, Plant, and Equipment, Investment properties and Goodwill.

Cash and cash equivalents this quarter increased by 92% from ₱2.339 billion in December 31, 2016 to ₱4.479 billion as of September 30, 2017 due to timing of collection and payments.

Trade and other receivables decreased by 10% from ₱8.789 billion as of December 31, 2016 to ₱7.890 billion as of September 30, 2017, as a result of tighter credit controls and a more efficient collection process.

Inventories increased by 37% to ₱4.112 billion as of September 30, 2017 from ₱2.999 billion as of December 31, 2016, driven by the timing of arrival of imports and increase in fuel prices. The Group targets to maintain an average of one month worth of inventory to ensure stable supply in retail stations and commercial/industrial clients. However, the actual level varies depending on the actual arrival dates of the fuel tankers.

As of September 30, 2017, the Group's property and equipment, net of accumulated depreciation, increased to ₱12.895 billion compared to ₱9.002 billion as of December 31, 2016 due to the acquisition of PLPI and the expansion program of the company's facilities.

Goodwill increased to ₱3.716 billion from only ₱0.010 billion in 2016 as a result of the acquisition of PLPI (formerly, PEPI).

Interest-bearing Loans and Borrowings, both current and non-current, increased by 86% from ₱13.184 billion as of December 31, 2016 to ₱24.477 billion as of September 30, 2017. The increase of ₱11.293 billion was from the new loans and trust receipts availed during the period inclusive of the long-term loan availed and used to acquire PLPI (formerly PEPI), Duta, and Kaparangan.

Trade and other payables decreased by 39% from ₱3.333 billion as of December 31, 2016 to ₱2.032 billion as of September 30, 2017 due to on-time settlement of the obligations and trust receipts availed, classified as Interest-bearing loans.

Total Stockholders' Equity increased to ₱10.824 billion as of September 30, 2017 from ₱9.762 billion as of December 31, 2016, resulting from the earnings generated during the quarter net of cash dividend declared and paid during the period both for common and preferred shares and the treasury shares movement.

### Key Performance Indicators and Relevant Ratios

The Group's key performance indicators and relevant ratios and how they are computed are listed below:

	Sept. 30, 2017	Dec. 31, 2016
Current Ratio <sup>1</sup>	1.08:1	1.17:1
Debt to Equity Ratio <sup>2</sup>	2.49:1	1.72:1
Return on Equity- Common <sup>3</sup>	29%*	11%**
Net Book Value per Share <sup>4</sup>	7.93:1	7.08:1
Debt to Equity Interest-Bearing <sup>5</sup>	1.26:1	1.35:1
Earnings per Share <sup>6</sup>	0.92*	0.64**
Earnings per Share <sup>7</sup>	1.17**	0.64**

*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

7 - Rolling One Year Net income after tax divided by weighted average number of outstanding common shares

\* One (1) quarter figure

\*\* One (1) year figure

These 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 (Return on Equity, Net Book Value Per Share and Earnings Per Share). Likewise, these ratios are used to compare the Group's performance with similar companies.

### Material Changes to the Group's Balance Sheet as of September 30, 2017 compared to December 31, 2016 (Increase/decrease of 5% or more)

92% increase in Cash and Cash Equivalents

Due to collection timing of Accounts Receivables

10% decrease in Trade Receivables

Due to collection timing of Accounts Receivables

37% in Inventory

Due to timing of vessel arrivals

36% decrease in Due to Related Party

A result of partial settlement of related party receivables

46% increase in Input Vat - Net

A result of excess VAT from purchases compared to the pass on VAT on sales coming from the increase in inventories and other material purchases

54% increase in Prepayment and other non-current assets

Due to increase in prepaid rentals, insurance, advertising and down payments of certain future purchases and services as well as the additions from the newly-acquired LPG business

43% increase in property, plant and equipment

Due to retail network expansion, storage facility expansion, equipment, vehicles acquisitions and other capital expenditures like the recently opened Tayud, Cebu Terminal and on-going construction of General Santos Terminal. This is also due to the acquisition of the LPG business.

42% increase in Current Interest-bearing loans

Due the reclassification of certain long-term loans which are due for payment this year and new short term loans and trust receipts availed within the period in relation to the increase in inventories resulting from higher fuel prices.

39% decrease in Trade and Other Payables

Due to on-time settlement of the obligations and trust receipts availed, classified as Interest-bearing loans

340% increase in Non-current Interest-bearing loans

Due to the new long-term loans availed within the period to finance the expansion and to acquire the LPG business.

37% increase in Non-current other non-current liabilities

Due to increase in security and equipment deposits, inclusive of the LPG business

10% decrease in Capital Stock

Due to treasury shares acquisition amounting to ₱109.4 million

**Material changes to the Group's Income Statement as of September 30, 2017 compared to September 30, 2016 (Increase/decrease of 5% or more)**

52% increase in Sale of Goods

Due to the increase in fuel prices and 19% growth of the sales volume with the inclusion of the LPG business

66% decrease in fuel service, shipping, storage income, and other revenue

There are no more shipping and other revenue coming from the spun-off former subsidiaries CSC and PPIPC.

54% increase in Cost of Sales

This mirrors the increase in the sale of goods, reflecting the price movements in the world market during the past nine months of 2017 which is higher compared to the same period in 2016. This also includes a total of **₱1,857.3 million** cost of sales of the LPG business.

26% increase in selling and administrative expenses

Driven by higher depreciation for completed expansions, rent expense, freight and delivery expenses, rebates, salaries and wages, taxes and licenses, repairs and maintenance, service fees, advertising and promotions in relation to the expansion program of the Group as well as the additions coming from the LPG business

9% increase in Finance Costs

The finance costs from the former subsidiaries in 2016, CSC and PPIPC, caused this huge improvement but the new loans for the acquisition of PEPI and the required working capital due to the increasing in fuel prices and volume, caused the increase.

285% increase in Finance Income

Due to the recognition of interest on certain receivables

123% Decrease in other income/charges

Due to the one-time gain recognized for the excess of fair value over acquired assets of Duta and Kaparangan

29% increase in income tax

Resulting from the expiration of Income Tax Holidays for terminals and depots, in particular the Bacolod and Cagayan De Oro terminals.

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 Parent Company held its annual stockholders' meeting last March 15, 2017 at the Phoenix Petroleum Corporate Headquarters, Lanang, Davao City, Philippines.

2. The Board of Directors approved the declaration of cash dividend of ₱0.10 per share as disclosed last March 15, 2017, with record date of March 30, 2017 and payment date of April 27, 2017.

The company also declared the following cash dividends to preferred stockholders:

- 8.25% to preferred stockholders (2nd tranche) with record date of February 22, 2017 and payment date of March 20, 2017.
- 7.4278% dividend to preferred stockholders (3rd tranche PN3A) with record date February 22, 2017 and payment date of March 20, 2016.
- 8.1078% dividend for preferred stockholders (3rd tranche PN3B) with record date February 22, 2017 and payment date of March 20, 2017.
- 8.25% to preferred stockholders (2nd tranche) with record date of May 24, 2017 and payment date of June 20, 2017.
- 7.4278% dividend to preferred stockholders (3rd tranche PN3A) with record date May 23, 2017 and payment date of June 19, 2017.
- 8.1078% dividend for preferred stockholders (3rd tranche PN3B) with record date May 23, 2017 and payment date of June 19, 2017.
- 8.25% dividend to preferred stockholders (2<sup>nd</sup> tranche) with record date August 24, 2017 and payment date of September 20, 2017.
- 7.427% dividend to preferred stockholders (3rd tranche PN3A) with record date August 24, 2017 and payment date of September 18, 2017.
- 8.1078% dividend to preferred stockholders (3rd tranche PN3A) with record date August 23, 2017 and payment date of September 18, 2017.

3. As of September 30, 2017, 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. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.



5. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Parent Company with unconsolidated entities or other persons created during the reporting period.
6. 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 Parent Company.
7. There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Parent 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.

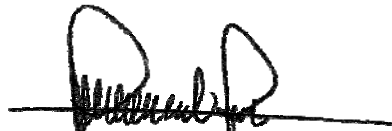
Registrant **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**

By:



**DENNIS A. UY**

President and Chief Executive Officer



**JOSEPH JOHN L. ONG**

Chief Finance Officer



**JONAREST Z. SIBOG**

AVP-Controller