SECURITIES AND EXCHANGE COMMISSION

SEC FORM 12-1, *AS AMENDED*

REGISTRATION STATEMENT
UNDER THE SECURITIES REGULATION CODE

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAY 06 2014
MARKET REGULATION DEPT.
BY:
TIME: 3:49

1. SEC Identification Number: **A200207283**

2. **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**
   Exact name of registrant as specified in its charter

3. **Davao City, Philippines**
   Province, country or other jurisdiction of incorporation or organization

4. **006-036-274**
   BIR Tax Identification Number

4. **To engage in, conduct and carry on the business of buying, selling, distributing, marketing at wholesale and retail insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description and all merchandise, supplies, materials and articles, such but not limited to petroleum, lubricants and other chemical products, as shall be necessary or expedient in conducting the business; to enter into all kinds of contracts for the export, import, purchase, acquisition for its own account as principal or in representative capacity as manufacturer's representative, merchandise broker, commission merchant, factors or agents, upon consignment of all kinds of goods, wares, merchandise or products, whether natural or artificial; operating depots, storage facilities and other allied services.**

   General character of business of registrant.

5. Industry Classification Code: ____________ (SEC Use Only)

6. **Stella Hizon Reyes Road, Barrio Pampanga**
   Davao City 8000, Philippines
   Telephone Number – (6382) 235 0168
   Fax Number – (6382) 235 8888
   Address, including postal code, telephone number, FAX number including area code, of registrant's principal offices

7. **Not applicable**
   If registrant is not resident in the Philippines, or its principal business is outside the Philippines, state name and address including postal code, telephone number and

FAX number, including area code, and email address of resident agent in the Philippines.

8. Fiscal Year Ending Date (Month and Day): **31 December**

Computation of Registration Fee

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed aggregate offering price	Amount of registration fee
Preferred Shares	5,000,000	₱100.00	₱500,000,000.00	
Other Issued and Preferred Shares	45,000,000	₱1.00 (par value)	45,000,000.00	
			₱545,000,000.00*	₱ 533,750.00
Legal Research Fee of 1%				5,337.50
Total SEC Fees				**₱539,087.50**

** If issue is more than ₱500 million worth of shares, the Registration Fee is P500,000, plus 0.075% of the excess over ₱500 million.*

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

5,000,000 PREFERRED SHARES

AT THE ISSUE PRICE OF ₱100.00 PER SHARE
WORTH ₱ 500,000,000.00 IN TOTAL
TO BE LISTED AND TRADED WITH
THE PHILIPPINE STOCK EXCHANGE

Issue Manager and Underwriter

PentaCapital Investment Corporation

Prospectus dated 06 May 2014

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAY 06 2014
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BY: TIME:

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.
STELLA HIZON REYES ROAD
BO. PAMPANGA, DAVAO CITY
PHILIPPINES
TELEPHONE NO. 63 82 235 8888

This Prospectus relates to the sale and new issuance of 5,000,000 Preferred Shares (the "Offer Shares") with a par value of ₱1.00 per share of P-H-O-E-N-I-X Petroleum Philippines, Inc., a corporation organized under Philippine law (the "Company") at issue price of ₱100.00 per share or a total of ₱500,000,000.00 in proceeds. This issuance was taken from the authorized but unissued preferred capital stock of the Company. The Offer Shares were issued on December 20, 2013 to Qualified Institutional Buyers under exempt securities under SRC Rule 10.1 (k) and (l) of Amended Implementing Rules and Regulations of the Securities Regulation Code.

This issuance of the Offer Shares is the second tranche ("second tranche") in the Preferred Shares securities category of the Company, the first tranche being issued on September 21, 2010 in the same quantity and issue price. The second tranche of Preferred Shares is intended solely to redeem the first tranche of preferred shares.

This issuance of the second tranche was initially issued by way of private placement to Qualified Institutional Buyers falling within the category of persons specified under SRC Rule 10.1 (k) and (l). As part of the commitment of the Company to its subscribers, the Company will register this issuance with the Securities and Exchange Commission (the Commission) and, thereafter, will list the same with the Philippine Stock Exchange (the Exchange). Approval by the Exchange will be granted subject to compliance by the Company with the requirements for listing. However, such approval for listing is merely permissive and does not constitute a recommendation or endorsement of the Offer by the Exchange. The Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed in this Prospectus. Furthermore, the Exchange makes no representation as to the completeness and expressly disclaims any liability whatsoever for any loss arising from or in reliance upon the whole or any part of the contents of this Prospectus.

The Company has a total of 2,550,000,000 authorized capital stock divided into 2,500,000,000 common shares and 50,000,000 preferred shares, out of which 1,428,777,232 common shares and 5,000,000 preferred shares are issued and outstanding. For purposes of this Prospectus, immediately after the completion of the placement, the Company will have a total of 10,000,000 preferred shares issued and outstanding.

There are two classes of securities issued by the Company, common and preferred. On March 08, 2010, after complying with the necessary documentary requirements as well as separate approvals from the Board of Directors and 2/3 votes of the stockholders, the Commission approved the reclassification of 50,000,000 preferred shares with the following features: non-convertible into common shares, non participating in any other or further dividends, non-voting except is cases specified by law, no pre-emptive rights to any issue of the Company's share and shall enjoy preference over the holders of common shares as to distribution of net assets in the event of dissolution or liquidation and in the payment of dividends at the specified rate. The Board of Directors shall determine its issued value at the time of issuance and shall determine its dividend rates and the dividends shall be paid cumulatively. The preferred shares shall be redeemable at the Company's option under such terms as the Board of Directors may provide at the time of issuance. It shall also be re-issuable when fully redeemed.

On September 21, 2010, the Company issued 5,000,000 preferred shares (the first tranche) at issue price of Php 100.00 by way of private placement and/or sale under SRC Rule 10.1 (k) and (l) to Qualified Institutional Buyer underwritten by PentaCapital Investment Corp. Under such issuance of the first tranche, the Company declared dividends of preferred shares at a fixed rate of 11.50% per annum, paid quarterly. Based on the subscription agreement of the first tranche, the Company agreed to an irrevocable redemption of the entire Preferred Shares at the end of 5 years at issue price of Php100.00 but with option to redeem the whole issuance of 5,000,000 on the 3rd year. In the event the Company fails to redeem in whole the issued preferred shares, the dividend rate shall be increased to 13.50% beginning on the 5th year.

By September 03, 2013, the third year since the issuance of the first tranche, the Company manifested and in fact opted to issue another 5,000,000 Preferred Shares (the 2nd tranche) for purposes of redeeming the first tranche at issue price of Php100.00 per share. The second tranche shall have a dividend rate of 8.25% interest

The Company raised a gross proceeds of approximately ₱500,000,000.00 from the Offer. The underwriting and selling fees to be paid by the Company in relation to the Offer shall be equivalent to 1.50% while the management fees was equivalent to 0.50% or a total of 2% of the gross proceeds from the Offer. After deducting listing fees, taxes and other fees and expenses related to the Offer, the net proceeds from the Offer is estimated at about ₱ 486,060,764.50.

On 06 May 2014, the Company filed a Registration Statement with the Commission in connection with the registration and licensing of the Offered Shares with an aggregate principal amount of up to ₱500,000,000.00 constituting the Offer. The SEC is expected to issue an order rendering the Registration Statement effective, in connection with the listing of the Offer Shares with the Exchange.

The Company is allowed under Philippine laws to declare dividends, subject to certain requirements. The Company‘s Board of Directors is authorized to declare dividends only from its unrestricted retained earnings. Dividends may be payable in cash, shares or property, or a combination of the three, as the Board of Directors shall determine. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of the Company‘s outstanding capital stock. The Board of Directors will not declare and pay dividends where (a) payment would cause the Company to breach any of its financial covenants or (b) the profits available to the Company to distribute as dividends are not sufficient to enable the Company to pay in full both the dividends on the Preferred Shares and the dividends on all other classes of the Company's shares that are scheduled to be paid on or before the same date as the dividends on the Preferred Shares and that have an equal right to dividends as the Preferred Shares.

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. An investment in Preferred Shares in this Prospectus involves a certain degree of risk. A prospective purchaser of Preferred Shares should carefully consider several risk factors inherent to the Company (detailed in Risk Factors on pages **28** to 40 of this Prospectus), in addition to the other information contained in this Prospectus, in deciding whether to invest in the Preferred Shares.

This Prospectus contains certain “forward-looking statements”. These forward-looking statements can generally be identified by use of statements that include words or phrases such as Company or its management “believes”, “expects”, “intends”, “plans”, and other words or phrases of similar import. Similarly, statements that describe the Company’s objectives, plans, and goals are also forward-looking statements. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. Nothing in this Prospectus is or should be relied upon as a promise or representation as to the future. The forward-looking statements included herein are made only as of the date of this Prospectus, and the Company undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

Unless otherwise stated, all information contained in this Prospectus has been supplied by the Company. The Company, through its Board, having made all reasonable inquiries, accepts full responsibility for the information contained in this Prospectus and confirms that this Prospectus contains all information with regard to the Company, its business and operations and the Offer Shares, which, as of the date of this Prospectus, are material in the context of the Offer; that, to the best of its knowledge and belief as of the date hereof, the information contained in this Prospectus are true and correct and are not misleading in any material respect; that the opinions and intentions expressed herein are honestly held; and, that there are no other facts the omission of which makes this Prospectus, as a whole or in part, misleading in any material respect. The delivery of this Prospectus shall not, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this Prospectus. No dealer, salesman or other person has been authorized by the Company or the Issue Manager and Underwriter to issue any advertisement or to give any information or make any representation in connection with the Offer other than those contained in this Prospectus and, if issued, given or made, such advertisement, information or representation must not be relied upon as having been authorized by the Company or the Issue Manager and Underwriter.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Company or the Issue Manager and Underwriter to subscribe for or purchase any of the Offer Shares. Neither may this Prospectus be used as an offer to, or solicitation by, anyone in any jurisdiction or in any circumstance in which such offer or solicitation is not authorized or lawful. The distribution of this Prospectus and the Offer in certain jurisdictions may be restricted by law. Persons who come into possession of this Prospectus are required by the Company and the Issue Manager and Underwriter to inform themselves about, and to observe any, such restrictions.

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

The Company is organized under the laws of the Republic of the Philippines. Its principal office is located at Stella Hizon Reyes Road, Bo. Pampanga, Davao City, Philippines with telephone numbers +6382 235 8888. Any inquiry regarding this Prospectus should be forwarded to the Company and BDO Capital & Investment Corporation.

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

By:

Dennis A. Uy
President and Chief Executive Officer

SUBSCRIBED AND SWORN to before me on **06 MAY 2014** in Davao City, Philippines, affiant exhibiting to me his Taxpayer's Identification No. 172-020-135 issued by the Bureau of Internal Revenue.

Doc. No. 179;
Page No. 36;
Book No. II;
Series of 2014.

MYRA M. PRINCIPE
Notary Public Until December 31, 2014
SN 250-2013 / TIN 275-800-504
Phoenix Petroleum Philippines Inc.
Phoenix Bulk Depot, Lanang, Davao City
Roll of Attorneys No. 59985
PTR No. 3949447B / 01-08-14 / Davao City
IBP No. 948589 / 01-08-14 / Davao City

IMPORTANT NOTICE

PentaCapital Investment Corporation ("PentaCapital" or the "**Issue Manager**") has been mandated by P-H-O-E-N-I-X Petroleum Philippines, Inc. (the "**Issuer**") to arrange an offering of Perpetual Preferred Shares (the "**Preferred Shares**" or the "**Offer Shares**") described in this Prospectus.

The Preferred Shares being offered are intended to constitute exempt securities under SRC Rule 10.1 (k) and (l) of the Amended Implementing Rules and Regulations of the Securities Regulation Code (Republic Act No.8799) and accordingly, are exempt per se from the registration requirements of the Securities Regulation Code. The Preferred Shares shall be issued to Qualified Institutional Buyers falling within the category of persons specified under SRC Rule 10.1 (k) and (l) and there shall be no transfers or assignments of Preferred Shares if such transfer or assignment will result in the Preferred Shares being held by non-Qualified Institutional Buyers. The purchase, sale, or transfer of the Preferred Shares may only be transacted by the registered holder through the Registrar. Each Preferred Shareholder, by its participation in this offering, shall be deemed to represent that it understands and agrees to the foregoing restrictions.

THE SECURITIES BEING OFFERED ARE EXEMPT AND, ACCORDINGLY, HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE AND ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO THE REQUIREMENTS OF SRC RULE 10.1 (K) and (L) OF THE AMENDED RULES AND REGULATIONS OF THE SECURITIES REGULATION CODE ISSUED BY THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO SECTION 10.1 OF THE SECURITIES REGULATION CODE.

The information, opinions and statements contained in this Prospectus have been supplied by the Issuer. The Issuer has confirmed to the Issue Manager that, to the best of its knowledge and belief and except as otherwise provided in this Prospectus, such information, opinions and projections are true complete and accurate in all material respects, that all such opinions are honestly held by the Issuer, all projections are fair and accurate in all material respects having regard to the circumstances now prevailing and in light of assumptions made and that the Prospectus does not omit any information such that its omission would make this Prospectus or any information contained herein inaccurate, untrue or misleading in any material respect. The Issuer accepts responsibility for the information contained in this document.

All projections in this Prospectus are illustrative exercises using assumptions described in it. The directors of the Issuer consider the assumptions to be reasonable but the actual outcome may be materially affected by changes in economic and other circumstances which cannot be foreseen. No representation or warranty is made that any projections will be achieved and accordingly, any reliance placed on such projections is a matter of commercial judgment.

The Issue Manager has not independently verified the information, opinions, projections or statements contained or referred to in the Prospectus and no representation or warranty, expressed or implied, is given by the Issue Manager or its affiliated companies as to the completeness or accuracy thereof or of any further information, opinions, projections or statements that may be supplied in connection with the Preferred Shares. The information does not purport to be inclusive or to contain all information that a prospective investor may desire and the Issue Manager does not undertake to update or keep under review the information contained herein.

This Prospectus is not intended to provide the sole basis of any credit or other evaluation and should not be considered as a recommendation that any investor provide financing to the Issuer. Each investor should make its own independent evaluation of the issue and creditworthiness of the Company, and of the relevance and accuracy of the information contained herein, and should make such other investigation as it deems necessary to determine whether it should purchase the Preferred Shares. Prospective investors in the Preferred Shares are advised to observe certain risks in connection with such investment in the Preferred Shares as outlined in the section “Risk Factors” in this Prospectus.

At the request of the Issuer, this Prospectus is being distributed to selected financial institutions. The information in this Prospectus is strictly confidential and may not be reproduced or used in whole or in part for any purpose whatsoever other than for the purpose of determining whether to participate in the Preferred Shares, without the written permission of the Issuer and the Issue Manager. If at any time any such reproduction or use is made and the Issue Manager suffers loss, damage or liability of any kind arising out of or in connection with any such reproduction or use, the recipient of this Prospectus breaching the restriction on reproduction or use shall indemnify such Issue Manager from and against such loss, damage or liability.

The distribution or possession of this Prospectus in or from certain jurisdictions may be restricted by law. Persons into whom this Prospectus comes are required by the Issuer and the Issue Manager to inform themselves about and to observe any such restrictions. Neither the Issuer nor the Issue Manager accepts any liability to any person in relation to the distribution or possession of this Prospectus in or from any jurisdiction.

Any inquiries regarding this Prospectus should be addressed to P-H-O-E-N-I-X Petroleum Philippines, Inc. Its principal office is at Stella Hizon Road, Barrio Pampanga, Lanang, Davao City, Philippines, with telephone number +6382 235 8888.

TABLE OF CONTENTS

DEFINITION OF TERMS

Application………………………	An application to subscribe for Offer Shares pursuant to the Offer
Banking Day……………………	A day (except Saturdays, Sundays and holidays) on which banks in the Philippines are open for business
BFP……………………………..	The Bureau of Fire Protection of the Philippines
BIR………………………………	The Bureau of Internal Revenue of the Philippines
BOI……………………………..	Board of Investments
BSP……………………………..	Bangko Sentral ng Pilipinas, the central bank of the Philippines
BPD……………………………..	Barrels per day
Chevron…………………………	Chevron Texaco Phils.
Clean Air Act……………………	Republic Act No. 8749 or “The Philippine Clean Air Act”
Clean Water Act………………..	Republic Act No. 9275 or “The Philippine Clean Water Act”
CODOs………………………....	Company-Owned, Dealer-Operated retail service stations
Common Shares……………….	The Company’s shares of common stock, each with a par value of Php1.00
Company………………………..	P-H-O-E-N-I-X Petroleum Philippines, Inc. or Phoenix
Directors………………………..	The members of the Board of Directors of the Company
DODOs…………………………	Dealer-Owned, Dealer-Operated retail service stations
DOE……………………………..	The Department of Energy of the Philippines
DOTSCO………………………..	Davao Oil Terminal Services Corporation
Downstream Oil Industry Deregulation Act……………….	Republic Act No 8479 and its implementing rules and regulations
DTI………………………………	The Department of Trade and Industry
Eligible Investors……………….	Applicants who are qualified to subscribe to the Offer

	Shares
ERB……………………………....	Energy Regulatory Board
Issue Manager…………………	PentaCapital Investment Corporation or PentaCapital
Issuer …………………………..	P-H-O-E-N-I-X Petroleum Philippines, Inc. or Phoenix
MB……………………………….	Thousand Barrels
MMB……………………………	Million Barrels
NPC…………………………….	The National Power Corporation
Offer …………………………….	5,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated Perpetual Preferred Shares comprising the Offer
Offer Price	Php 100.00 per Offer Share
OIMB…………………………….	The Oil Industry Management Bureau of the DOE
₱…………………………………	Philippine Pesos, the lawful currency of the Republic of the Philippines
Paying Agent …………………..	Banco de Oro Unibank, Inc.-Trust and Investments Group
Petron…………………………...	Petron Corporation
Philippine Nationals……………	The term shall mean any of the following: (1) a citizen of the Philippines or a domestic partnership or association wholly owned by citizens of the Philippines; or (2) a corporation organized under the laws of the Philippines at least sixty per cent (60%) of the capital stock outstanding and entitled to vote of which is owned and held by citizens of the Philippines; or (3) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least sixty per cent (60%) of the fund will accrue to the benefit of the Philippine nationals. Where a corporation and its non-Filipino stockholders own stocks in an SEC-registered enterprise, at least sixty per cent (60%) of the capital stock outstanding and entitled to vote of both corporations must be owned and held by citizens of the Philippines and at least sixty per cent (60%) of the members of the Board of Directors of both corporations must be citizens of the Philippines, in order that the corporations shall be considered a Philippine national.

Phoenix System………………..	The unique system relating to the establishment, development and operation of the Phoenix retail gasoline station developed by the Company. The distinguishing characteristics of the system include, but are not limited to, petroleum products, services and signages, the Phoenix Confidential Operations Manual; uniform operating methods, procedures and techniques; other confidential operation procedures; and methods and techniques for inventory and cost controls, record keeping and reporting, personnel management, sales promotion, marketing an advertising; and optional operation of onsite convenience store, all of which may be changed, improved and further developed by the Company.
PPHI or Parent Company………..	Phoenix Petroleum Holdings, Inc.
PSE………………………………......	The Philippine Stock Exchange, Inc.
Registrar …………………..	Banco de Oro Unibank, Inc.-Trust and Investments Group
SEC……………………………...	The Securities and Exchange Commission of the Philippines
Shell……………………………..	Pilipinas Shell Petroleum Corporation
SRC……………………………..	Republic Act No. 8799, otherwise known as The Securities Regulation Code
Total…………………………….	Total Philippines Corporation
Trading Day ……………………	Any day on which trading is allowed in the PSE
Udenna Corporation.............	Udenna Corporation
UMRC	Udenna Management & Resources Corp.

EXECUTIVE SUMMARY

The following summary does not purport to be complete and is taken from and qualified in its entirety by the more detailed information including the Company's financial statements and notes relating thereto, appearing elsewhere in this Prospectus. For a discussion of certain matters that should be considered in evaluating any investment in the Offer Shares, see the section entitled "Risk Factors" beginning on page 28 of this Prospectus. Terms defined elsewhere in this Prospectus shall have the same meanings when used in this summary. Prospective investors should therefore read this Prospectus in its entirety.

OVERVIEW OF THE COMPANY

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the "Parent Company" or "Company", interchangeably) was incorporated in the Philippines on May 8, 2002 under its original name of "Oilink Mindanao Distribution, Inc." On 11 January 2004, the Company amended its Articles of Incorporation changing its name from Oilink Mindanao Distribution, Inc. to "Davao Oil Terminal Services Corp." On August 7, 2006, the SEC approved the Amended Articles of Incorporation of the Company changing its name from Davao Oil Terminal Services Corp. to "P-H-O-E-N-I-X Petroleum Philippines, Inc." The Company is 41.22 per cent owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines.

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

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

Under its registration, the Company's transactions relating to the BOI registered investment, it is also entitled to certain tax and non-tax incentives. Details of the registrations are as follows:

Location of Project	Date of Registration	Income Tax Holiday Period	Income Tax Holiday Expiry
Calaca, Batangas	February 26, 2010	5 years	February 25, 2015
Davao Expansion	May 14, 2010	5 years	May 13, 2015
Zamboanga	November 25, 2010	5 years	November 24, 2015

Bacolod City	May 10, 2012	5 Years	May 09, 2017
Cagayan de Oro Cit	May 10, 2012	5 Years	May 09, 2017

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

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

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

Subsidiaries:

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

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

- **PGMI** was incorporated on July 31, 2006. It was previously engaged in the manufacture, production and creation of all kinds of motor, and all other transportation lubricants, fluids and additives of all kinds and other petroleum products purposely for motor vehicles and other transportation. PGMI temporarily ceased its operation and is currently dormant.

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

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

- **SPTT** is engaged in the buying and selling, supply and distribution, importation and exportation, storage and delivery of all types of petroleum for industrial, marine, aviation and automotive use. It does not carry any inventory at any given time. SPTT is duly registered with Subic Bay Metropolitan Authority and was issued the Certificate of Registration and Tax Exemption on 01 June 2012, which is effective until 05 May 2014, subject to annual renewal by SPTT. It was organized and registered on February 20, 2007. The registered office of SPTT, which is also its principal place of business, is at Units 113 and 115 Subic International Hotel, Alpha Building, Rizal Highway, Subic Bay Freeport Zone, Zambales.

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

As of the end of 2012, the Company estimates that it has 6.4% share of the retail service stations network in the Philippines and captures 6.3% Philippines fuels market.

COMPETITIVE STRENGTHS

The Company believes that its strengths lie in the following:

- **Brand**. In an industry that has been dominated by strong multinational brands for decades, the Company is exerting huge efforts in widening the recognition of its brand. It continues to build up its brand through major marketing activities like mass media placements, celebrity endorsements, participating in trade expositions, and sponsoring key sports events. Its spending on brand equity is a necessary accompaniment to its investments in its retail and logistics infrastructure.

- **Cost-effective approach**. The Company's no-frills investment and station design approach allows a faster start-up time in putting up retail stations, allowing it to realize sales earlier than its competitors. The approach further emphasizes right-sizing in order for the Company and the dealer to realize a shorter payback on investment.

- **Simple organizational structure**. The relatively flat organizational structure allows the Company to respond faster to developments in the market. The Company's quick and proactive mindset allows it to seize opportunities as they become available. The management team has been built up with the addition of many key personnel with extensive experience in various areas of the petroleum industry.

BUSINESS STRATEGY

The Company will continue to expand in other areas by building on its existing business model and by improving the alignment of its frontline revenue units with the logistics and other support areas of the organization. The Company will be cognizant of the need to enhance further its profit-oriented and cost-effective approach and will maintain a highly responsive organization. Its strategy shall focus on the following elements:

- **Retail Network Expansion**. The increase in retail presence in viable trade areas will allow the Company to increase its assured base volume of fuel sales. The retail network expansion will likewise enhance the market for the company's lubricants. A growing base volume for retail fuels will also provide the Company with greater flexibility in transacting fuel importations with regional traders at more advantageous terms. The Company believes it has developed the competencies in network planning and operations necessary for efficiently managing the growth of its retail business.

  As of December 31, 2013, the Company had 368 retail service stations throughout the Philippines of which 112 are in Luzon, 47 in Visayas and 209 in Mindanao.

  In this regard, the Company is planning for the establishment of about 70 new retail stations throughout the Philippines in 2014, including 32 in Luzon, 24 in the Visayas and 14 in Mindanao. Subsequently, the Company hopes to expand its retail network on a CAGR of about 8% in 2013 to 2018. Specific suitable locations have already been identified for the 2013 balance as well as 2014 initial months and are now in different stages of negotiations, development or construction. The related expansion and strengthening of its depot, terminaling and distribution facilities will support the implementation of this business plan.

  In line with the expansion of its retail service network, the Company will continue to develop and strengthen its Retail Network Management Systems in order to support its retail network expansion program in collaboration with dealers and franchisees. These will include the acquisition of a point-of-sales system to make the recording and reporting systems of retail service transactions more efficient.

- **Terminal/Depot Expansion**. The Company will continue to make strategic investments in storage and transportation to support its retail network expansion program, and the broadening of its commercial customer base. Regional storage facilities will be required where the scale of the prospective retail network growth justifies the investment. Depots pay for themselves in terms of, among other things, savings in freight and handling costs, better aggregation of bulk fuel procurements and faster response time (and incremental profit margin opportunities) to upswings in trade area demand, especially for wholesale and commercial customers.

  A major investment by the Company in 2009 was the acquisition of 100% of the shares of PPIPC, the owner/operator of PPIP. The Company has installed a 110 million liter installation in PPIPC, thereby strengthening its ability to service new retail stations in Metro Manila and Southern Tagalog. The Company's expansion program calls for additional storage capacity of 63 million liters in 2014 on top of the 272 million liters programmed at end December 31, 2013. The additional capacity consists of 9 million liters in Luzon, 15 million liters in Visayas, 39 million liters in Mindanao. The Company still looks to expand depot capacities in the Country to have a coverage of around 95% of the country area of demand in the next three years.

- **Direct Fuels Importation**. The Company has largely accomplished its strategy of moving from 100% domestic procurement to at least 95% imported procurement, respectively. Aside from diversifying fuel supply sources, importations yield higher gross profit margins due to the multiplicity of price-competitive offshore supply sources. While this strategy entails more complex supply chain management, the Company believes it has significantly moved up along the learning curve and has improved much on its processes since it began direct importations in 3rd quarter of 2009. It believes that the only limitation to fully exploiting the advantages of direct fuel importation is the amount of working capital required to support a faster turnover in the importation cycle.

- **Jet Fuel Trading & Service Business**. The Company will market itself as the logistics partner of choice for the leading domestic airlines. As the exclusive logistics partner of Cebu Pacific in Mindanao for the last 8 years the Company also expanded its business in Luzon and the Visayas thereby serving Tiger Airways in Kalibo. It has built a track record of delivering good service and adherence to quality standards. The airline fuels service business is expected to be a growing source of product margin and storage revenues and a reputation enhancer in the Commercial fuels market.

- **Financial Strength**. Realizing that financial strength is a critical success factor in the fulfillment of its plans, the Company continued to increase its equity capital, from PHP194 million in 2006 to PHP4.342 billion in 2012. As of 30 June 2013, shareholder's equity amounted to Php5.928 billion. The Company will continue to take advantage of the current liquidity in the financial and capital markets to improve its financial condition by lowering its average cost of capital, partially finance its capital expenditure programs and strengthen the working capital required to scale up the operations of its various business lines.

- **Organizational Strength.** The Company's Senior Management team is composed of professional managers many of whom have substantial experience in the petroleum industry and whose diverse backgrounds and experience provide the backbone of leadership. Its respect for innovation and creativity has allowed the Company to look for appropriate talent and key competencies beyond the petroleum industry and to add value to its business.

- **Improving its Information System.** The Company continues to roll out a "point-of-sale" ("POS") system that will provide the Company with timely, accurate and detailed sales data. Such data will not only provide basic sales volumes and peso values, but other purchasing trends such as peak times, average purchases, number of customer and other pertinent information. The dealer will also benefit from the POS by providing him with a security feature against pilferage by attendants as well as assisting him in managing his own inventory levels aside from monitoring sales.

  The Company also launched its new ERP last October 1, 2013, the SAP - A1. A more advance, tailored-fit and integrated system to cater its growing need of a more real-time and accurate data. The capability of the system is expected to boost the Company service and reporting.

  Earlier this year, the Company also launched its Customer Relation Management system (CRM) to improve further its customer service and offerings.

RISKS OF INVESTING

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Offer Shares. The risk factors summarized below are of equal importance and are only separated into categories for easy reference. The risk factors will be discussed further starting on page 28. These risks include:

Risks Relating to the Offer Shares

- Dividends on the Preferred Shares may not be paid in full.
- The Preferred Shares are subordinated to the Company's other indebtedness.
- Holders of Preferred Shares may be exposed to insufficient distributions upon liquidation of the Company.
- The Preferred Shares have no stated maturity and the Company has the sole right to redemption.
- Transfers of the Preferred Shares are restricted.
- Holders of Preferred Shares have no voting rights.

Risks Relating to the Company and Its Subsidiary

- Disruption in the global supply of petroleum products;
- Volatility of fuel prices;
- Significant competition in the downstream oil industry;
- Dependence on third party providers to fulfill their obligations to the Company; and
- Dependence on the successful execution of its expansion plans
- Effect of environmental laws on the Company's business.

- Significant disruption in operations
- Fluctuations in the value of the Philippine Peso against the U.S. dollar.Sales to Cebu Air Inc.
- Income Tax Holiday Status
- Dependence on Certain Key Personnel
- Interest of the Majority Shareholders
- Increase in the number or severity of claims for which the Company is insured

Risks Relating to the Philippines

- Slow growth rates and economic instability globally and in the Philippines
- Political or social instability
-
- Possible occurrence of natural catastrophes or blackouts
  If foreign exchange controls were to be imposedRegulatory decisions and changes in the legal and regulatory environment
  Philippine foreign ownership limitations

Please refer to the section entitled "Risk Factors" beginning on page 25 of this Prospectus which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with an investment in the Preferred Shares.

THE COMPANY'S PRINCIPAL EXECUTIVE OFFICE

The Company's principal executive office is located at Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, Philippines. The Company's telephone number at this address is (+6382) 235 8888. Information on the Company can be obtained on its website: *www.phoenixfuels.ph*

SUMMARY FINANCIAL INFORMATION

The following tables set forth financial and operating information of Phoenix. Prospective Preferred Shares investors should read the summary financial data below together with the financial statements, including the notes thereto, included in this Prospectus and the section "Management's Discussion and Analysis of Financial Condition and Results of Operation". The summary financial data for the three years ended December 31, 2013, 2012, and 2011 are derived from Phoenix's audited financial statements, including the notes thereto, which are found elsewhere in this Prospectus.

Income Statement Data (in Php millions)	**2013**	**2012****	**2011****	
Revenues	43,552	34,586	27,451	
Cost and Expenses	42,240	33,435	26,580	
Other Income/ (Charges)	(645)	(477)	(269)	
Income/ (Loss) Before Tax and Other Items	666	671	602	
Pre-Acquisition Loss			(3)	
Excess of Fair Value over Acquisition Costs				
Tax Income (Expense)	(1)	20	(41)	
Net Income	**665**	**651**	**558**	

**Re-stated Figures

Consolidated Financial Position Data (in Php millions)	**2013**	**2012****	**2011****	
ASSETS **Current Assets**				
Cash and cash equivalents	357	439	924	
Trade and other receivables	7,344	3,557	2,865	
Inventories	3,813	3,689	2,133	
Land held for sale	503	502	452	
Due from related parties	3	8	26	
Restricted deposits	95	83	69	
Input value-added tax	449	393	227	
Other current assets	490	282	206	
Total Current Assets	**13,054**	**8,953**	**6,902**	

	2013	2012**	2011**	
Non-current Assets				
Installment Receivable			9	
Property, plant and equipment — net	8,628	6,999	5,572	
Land held for future development	298	289	272	
Goodwill	85	85	86	
Other non-current assets – net	270	168	117	
Total Non-current Assets	**9,283**	**7,540**	**6,057**	
Total Assets	**22,337**	**16,493**	**12,959**	
LIABILITIES AND EQUITY				
Current Liabilities				
Loans and borrowings	8,207	4,119	4,031	
Trade and other payables	1,570	1,547	3,084	
Due to related parties	64	86	37	
Total Current Liabilities	**9,842**	**5,752**	**7,152**	
Non-current liabilities				
Loans and borrowings	5,544	5,796	1,846	
Due to related parties	-	-	24	
Deferred Tax Liabilities-net	76	106	6	
Other non-current liabilities – net	377	357	217	
Total Non-current Liabilities	**5,998**	**6,259**	**2,092**	
Total Liabilities	**15,840**	**12,011**	**9,244**	
Equity				
Capital stock-Common	1,428	906	661	
Preferred Stocks	5	5	5	
Additional paid-in capital	3,368	2,052	2,052	
Revaluation and Other Reserves	(350)	(340)	(551)	
Retained earnings	2,047	1,860	1,548	
Total Equity	**6,498**	**4,482**	**3,715**	
Total Liabilities and Equity	**22,337**	**16,493**	**12,959**	

**Re-stated Figures

THE OFFER

The Company is offering to the public 5,000,000 cumulative, non-voting, non-participating, non-convertible peso-denominated Perpetual Preferred Shares at an Offer Price of ₽100.00 per Preferred Share. The Preferred Shares have a par value of ₽1.00 per share and will be issued by the Company from its 50,000,000 authorized and unissued preferred share capital.

SUMMARY OF THE OFFER

The following do not purport to be a complete listing of all the rights, obligations and privileges of the Preferred Shares. Some rights, obligations or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective Shareholders are enjoined to perform their own independent investigation and analysis of the Issuer and the Preferred Shares. Each prospective Shareholder must rely on its own appraisal of the Issuer and the proposed financing and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to participate in the proposed financing and must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective Shareholder's independent evaluation and analysis.

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Preferred Shares. Accordingly, any decision by a prospective investor to invest in the Preferred Shares should be based on a consideration of this Prospectus as a whole. Should there be any inconsistency between the summary below and the final documentation, the final documentation shall prevail.

The Offer	The Company, through the Issue Manager named herein, is offering 5,000,000 cumulative, non-voting, non-participating, non-convertible peso-denominated perpetual Preferred Shares.
Par Value	The Preferred Shares shall have a par value of ₽1.00 per Share.
Offer Price	The Preferred Shares shall be offered at a price of ₽ 100.00 per Preferred Share
Dividend Rate	As and if dividends are declared by the Board, dividends on the Shares shall be at a fixed rate of 8.25% per annum calculated in respect of each Share by reference to the Offer Price thereof in respect of each Dividend Period.
Conditions on Payment of Dividends	The Preferred Shares shall have priority in the payment of dividends at the stipulated rate at the time of issuance and in the distribution of assets in the event of liquidation and dissolution of the Company. As such, the Board of Directors to the extent permitted by law shall

	declare dividends each quarter sufficient to pay the dividend rate of the Preferred Shares. Dividends on the Shares will be cumulative. If for any reason the Company's Board does not declare a dividend on the Shares for a dividend period, the Company will not pay a dividend on the Dividend Payment Date for that dividend period. However, on any future Dividend Payment Date on which dividends are declared, holders of the Shares must receive the dividends due them on such Dividend Payment Date as well as all dividends accrued and unpaid to the holders of the Shares prior to such Dividend Payment Date. Holders of Shares shall not be entitled to participate in any other or further dividends beyond the dividends specifically payable on the Shares.
Dividend Payment Dates	Subject to limitations described in this Prospectus, dividends on the Shares will be payable on December 20, March 20, June 20 and September 20 of each year (each a Dividend Payment Date). The dividends on the Shares will be calculated on a 30/360-day basis and will be paid quarterly in arrears on the last day of each 3-month Dividend Period (each a Dividend Payment Date), as and if declared by the Board. If the Dividend Payment Date is not a Banking Day, dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of dividends to be paid.
Dividend Rate Step-Up	Unless the Preferred Shares are redeemed by the company, the Dividend Rate will be adjusted to 10.25% per annum beginning the 6th year from Issue Date and 12.25% beginning the 9th year from Issue Date.
Long Term Debt to Equity Ratio	The Company will maintain a Long-Term Debt to Equity Ratio of 2:1 throughout the life of the Preferred Shares.
Condition on the Issuance of Additional Preferred Shares	The Company will be entitled to issue additional Perpetual Preferred Shares only for the sole purpose of redeeming this Preferred Shares Issue.
Optional Redemption and Purchase	As and if declared by the Board, the Company may redeem the Preferred Shares beginning the third year (3rd) anniversary from the Issue Date (the Optional Redemption Date) or on any Dividend Payment Date thereafter subject to a minimum 60 days' prior written notice prior to the Optional Redemption Date, at a redemption price equal to the Issue Price of ₱100.00 per share plus accrued and unpaid dividends for all dividend periods, if any, up to the date of actual redemption by the Company.

Early Redemption Due to Taxation	If payments become subject to additional withholding or any new tax as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to the Company even before the Optional Redemption Date, the Company may redeem the Preferred Shares in whole, but not in part, on any Dividend Payment Date at the Issue Price of ₱ 100.00 per share plus all accrued and unpaid dividends, if any. Provided that notice is given to all Preferred Shareholders at least 30 but no more than 60 days prior to the redemption date.
Taxation	All payments in respect of the Preferred Shares are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including but not limited to, stamp, issue, registration, documentary, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the Company will pay additional amounts so that holders of the Preferred Shares will receive the full amount of the relevant payment which otherwise would have been due and payable. Provided, however, that the Company shall not be liable for: (a) the 10% final withholding tax applicable on dividends earned on the Preferred Shares prescribed under the National Internal Revenue Code of 1997, (b) expanded value added tax which may be payable by any holder of the Preferred Shares on any amount to be received from the Company under the Preferred Shares and (c) any withholding tax on any amount payable to any holder of Shares or any entity which is a non-resident foreign corporation. Provided, further, that all sums payable by the Company to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments or governmental charges provided said entities present sufficient proof of such tax-exempt status from the tax authorities. Documentary stamp tax for the primary issue of the Shares and the documentation, if any, shall be for the account of the Company. The standard taxes applicable to the subsequent sale of the Preferred Shares by any holder of the Preferred Shares shall be for the account of the said holder. See also the discussion under "Taxation" on page 69.
Liquidation Rights	In the event of a return of capital in respect of the Company's winding up or otherwise (whether voluntarily or involuntarily) but not on a redemption or purchase by the Company of any of its share capital, the holders of the Preferred Shares at the time outstanding will be entitled to receive, in Pesos out of the Company's assets available for distribution to shareholders, together with the holders of any other of the Company's shares ranking, as regards repayment of capital, pari passu with the Preferred Shares and before any distribution of assets

	is made to holders of any class of the Company's shares ranking after the Preferred Shares as regards repayment of capital, liquidating distributions in an amount equal to the Issue Price of the Preferred Share plus an amount equal to any dividends declared but unpaid in respect of the previous dividend period and any accrued and unpaid dividends for the then-current dividend period to (and including) the date of commencement of the Company's winding up or the date of any such other return of capital, as the case may be. If, upon any return of capital in the Company's winding up, the amount payable with respect to the Preferred Shares and any other of the Company's shares ranking as to any such distribution pari passu with the Preferred Shares are not paid in full, the holders of the Preferred Shares and of such other shares will share ratably in any such distribution of the Company's assets in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Preferred Shares will have no right or claim to any of the Company's remaining assets and will not be entitled to any further participation or return of capital in a winding up.
Form, Title and Registration of the Preferred Shares	The Preferred Shares will be issued in certificated form through the book-entry system of Banco de Oro Unibank, Inc.- Trust and Investments Group as Registrar for the Offer. Legal title to the Shares will be shown in a register of shareholders (the "Registry of Shareholders") which shall be maintained by the Registrar. The Registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Preferred Shares that is effected in the Registry of Shareholders (at the cost of the requesting Shareholder).
Status of the Preferred Shares in the Distribution of Assets in the Event of Dissolution	The Preferred Shares will constitute the direct and unsecured obligations of the Company and shall have priority in the distribution of assets in the event of liquidation and dissolution of the Company
Selling and Transfer Restrictions	Initial placement of the Preferred Shares and subsequent transfers of interests in the Preferred Shares shall be restricted to Qualified Institutional Buyers as defined under SRC Rule 10.1 (k) and (l) of the SRC.
Title and Transfer	Legal title to the Preferred Shares shall pass by endorsement and delivery to the transferee and registration in the Registry of Shareholders to be maintained by the Registrar.
Governing Law	The Preferred Shares will be issued pursuant to the laws of the Republic of the Philippines.

<u>Other Terms of the Offer</u>

Minimum Subscription to the Preferred Shares	Each Application shall be for a minimum of 100,000 Shares, and thereafter, in multiples of 1,000 Shares. No Application for multiples of any other number of Shares will be considered.
Eligible Investors	The Preferred Shares may be owned or subscribed to by the following Qualified Institutional Buyers as defined under SRC Rule 10.1 (k) and (l): mutual funds, pension or retirement funds, commercial or universal banks, trust companies, investment houses, insurance companies, investment companies, finance companies, venture capital firms, government financial institutions, trust departments of commercial or universal banks, non-bank quasi banking institutions, Trading Participants of the PSE for their dealer accounts, non-stock savings and loan associations, educational assistance funds and other institutions of similar nature determined as such by SEC. Due to the constitutional limit on foreign ownership applicable to the Company, foreign shareholdings in the Company cannot exceed 40% of the issued and outstanding capital stock thereof. The Company reserves the right to reject/scale down applications by foreign applicants if acceptance of such applications will result in a violation of the Company's foreign ownership restrictions.
Payment of the Preferred Shares	The Preferred Shares must be paid in full on Issue Date.
Issue Date	December 20, 2013
Registrar and Paying Agent	Banco de Oro Unibank, Inc.-Trust and Investments Group

RISK FACTORS

General Risk Warning

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance.

There is an extra risk of losing money when securities are issued by smaller companies. There may be a big difference between the buying price and the selling price of these securities.

Investors deal in a range of investments each of which may carry a different level of risk.

Prudence Required

The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study on the trading of these securities before commencing any trading activity. Investors may request publicly-available information on the Preferred Shares and the Company from the SEC and PSE.

Professional Advice

An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially high risk securities.

Risk Factors

An investment in the Preferred Shares described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Preferred Shares should carefully consider the following factors, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Preferred Shares. This Prospectus contains forward-looking statements that involve risks and uncertainties. Phoenix adopts what it considers conservative financial and operational controls and policies to manage its business risks. The Company's actual results may differ significantly from the results discussed in this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of Phoenix, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

Investors should carefully consider all the information contained in this Prospectus including the risk factors described below, before deciding to invest in the Preferred Shares. The Company's business, financial condition and results of operations could be materially adversely affected by any of these risk factors.

RISKS RELATING TO THE COMPANY AND ITS SUBSIDIARY

The following discussion is not intended to be a comprehensive description of all applicable risk considerations, and is not in any way meant to disclose all risk considerations or other significant aspects of investment in the Preferred Shares. Investors are encouraged to make their own independent legal, financial, and business examination of the Borrower.

Volatility of the price of crude oil may have an adverse effect on the Company's business, results of operations and financial condition.

The Company's financial results are primarily affected by the difference between the price and cost of its petroleum products, which accounts for more than 99% of the Company's total cost of goods sold. A number of domestic and international factors influence the price of petroleum products, including but not limited to the changes in supply and demand for crude oil, economic conditions, conflicts or acts of terrorism, weather conditions, and governmental regulation.

International crude oil prices have been volatile, and are likely to continue being volatile going forward. International crude oil prices were especially volatile in 2008. Demand for oil started to decline and oil prices followed shortly after. Dubai spot crude oil reached a record-high of US$141/bbl1 in July 2008 and went down to under US$37/bbl in December 2008. Mean of Platts - Singapore (MOPS) fluctuates very erratically due to either economic or political factors or both. In this year, the MOPS for GASOIL hits a low of US$ 110/barrel and a high of US$ 135/barrel. There is no assurance that prices will remain stable over the near- and medium-term.

Phoenix holds about twenty (20) to thirty (30) days of inventory and uses the average method to account for its inventory. Should crude and or MOPS prices suddenly drop significantly, this could adversely affect the Company which could translate into the Company being forced to sell its petroleum products at a selling price below acquisition costs of its existing inventory. In a period of rising crude oil prices, social and competitive concerns, and government intervention can further force the Company to keep current selling prices, resulting in an inability to pass on price fluctuations in a timely manner. The Government has previously intervened to restrict price increases for petroleum products, following a declaration of a state of national calamity by former President Gloria Macapagal-Arroyo after typhoons "Ondoy" and "Pepeng" left a trail of disaster. In 2013, during the declaration of state of calamity brought about by the monsoon rain in Luzon and the earthquake in Bohol, Cebu and neighboring places, the Department of trade and Industry issued a price freeze order to basic commodities including fuel. Another declaration of a state of national calamity may result in the Company being unable to pass on prices effectively which could adversely affect the profitability for the period of effect of the order. Such inability to pass on price fluctuations may result to an adverse effect on the Company's business, results of operations and financial condition. Demand for the Company's products may also be affected as a result of price increases, following passing on of the increased costs of imported oil.

A sharp rise in oil prices will require higher working capital and may force the Company to acquire higher financing costs. A material adverse effect on the Company's financial condition and results of operations may follow should the Company face challenges in securing short-term financing for working capital.

To mitigate this risk, the Company closely monitors the prices of fuel in the international and domestic markets. Following industry practice, prices for the upcoming week are set based on the world market price of fuel of the immediately preceding week. These enable the Company not only to anticipate any significant price movement but likewise plan out contingencies to hasten the disposition of its existing inventory as necessary to various distributors and other clients.

The Company's business, financial condition and results of operations may be adversely affected by intense competition.

The Company faces intense multinational, national, regional and local competition in the sale of refined petroleum products and other related products in the Philippines. Competition is driven and dictated primarily by the price, as oil is one of the basic commodities. Differences in product specifications, and other overhead costs such as transportation, distribution and marketing costs, account for the price differentials amongst industry players. Some competitors, notably Petron, Shell and Chevron, have significantly greater financial and operating resources, and access to capital than Phoenix, and could arguably dictate domestic marketing and selling conditions to the detriment of the Company.

As competition is mainly driven by price, the Company's business, operational and financial condition may be materially adversely affected if it is unable to compete effectively against other players, which will be primarily driven by its ability to manage overhead costs, streamline transportation and distribution costs, and maximize utilization of its assets.

Smuggling and illegal trading activities of petroleum products have affected the domestic petroleum market. These activities have translated to lower sales price and volumes for legitimate market players in the domestic market. The Company's financial condition and results of operations may be adversely affected if the Government is unable to properly enforce and regulate the domestic oil market.

Competition risk is primarily mitigated by the Company continually strengthening and expanding its distribution network to improve its presence in both growing and high potential markets. The Company continues to invest in building brand equity to ensure that it is consistently recognized and recalled by its target market, and improving customer service to a level at par with or superior to its competitors.

The growth of the Company is dependent on the successful execution of its expansion plans.

Proper execution and successful implementation of the Company's expansion plans is critical to maintain the growth of Phoenix going forward. These plans are based on certain assumptions about oil demand, oil prices, competition, financing cost and acquiring the necessary timely regulatory approvals, among other things. The Company cannot and does not represent with absolute certainty that these assumptions would materialize as predicted. In the event that these prove to be incorrect, the Company's future financial performance may be negatively affected.

To mitigate this risk, the Company continually reviews its network expansion program by identifying and anticipating target locations, dealers and operating and logistical requirements up to a year in advance. The Company is able to mobilize financial and operating resources in a timely manner and allocate resources effectively to support the Company's expansion plans.

The Company's business strategies require significant capital expenditures and financing, which are subject to a number of risks and uncertainties. Its financial condition and results of operations may be adversely affected by its debt levels.

The Company's business is capital intensive, particularly the importation, storage and distribution of petroleum products. The Company's financial condition, sales, net income and cash flows, will depend on its capital expenditures for, among others, the construction of storage and wholesale distribution facilities and equipment, the construction of retail gas stations and the acquisition of tanker trucks. Its business strategies involve the construction of new terminal facilities and the expansion of its service station networks. If the Company fails to complete its capital expenditure projects on time or at all or within the allotted budget, or to operate such facilities at their designed capacity, it may be unable to maintain and increase its sales and profits or to capture additional market share as planned, and its business, results of operations and financial conditions could be adversely affected.

The Company has incurred additional indebtedness to support its capital expenditure program. The Company’s ability to follow this program and meet its debt obligations will partly depend on the business’ ability to generate cash flows from its operations and obtain additional financing. There can be no assurance that the Company will be able to generate sufficient cash flows from its operations or obtain adequate financing for its capital expenditure projects or to meet its debt servicing obligations, on acceptable terms or at all. The inability of the Company to meet its capital expenditure program whether through unsuccessful implementation or insufficient funding could adversely affect its business, financial condition and results of operations.

Financing risk is mitigated as the Company follows a conservative financing strategy to optimize its leverage and ensure that the costs of financing are well within the Company’s ability to meet these costs.

Any significant disruption in operations or casualty loss at the Company’s storage and distribution facilities could adversely affect its business and results of operations and result in potential liabilities.

The Company’s operation of its storage and terminal facilities and retail gasoline stations could be adversely affected by several factors, including but not limited to equipment failure and breakdown, accidents, power interruption, human error, natural disasters and other unforeseen incidents and issues. These disruptions could result in product run-outs, facility shutdown, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and/or unplanned inventory build-up, all of which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Company has purchased insurance policies covering majority of foreseeable risks but do not cover all potential losses as insurance may not be available for all such risks or on commercially reasonable terms. Operational disruptions may occur going forward, and as such, insurance may not be able to adequately cover the entire scope or extent of the losses or other financial impact on the Company.

Phoenix aims to mitigate this risk by following best practices to prevent the occurrence of or minimize the impact of accidents or other untoward incidents. These include measures to isolate the physical effects of any incidents (for example, the dispersed locations of its storage depots, alternative storage arrangements), minimize their financial impact on the Company (by ensuring that insurance coverage is adequate) and prevent their occurrence (for example, by ensuring that maintenance and safety procedures follow ISO standards and maintaining an adequate security force).

Continued compliance with safety, health, environmental and zoning laws and regulations may adversely affect the Company’s results of operations and financial condition.

The operations of the Company’s business are subject to a number of national and local laws and regulations, including safety, health, environmental and zoning laws and regulations. These laws and regulations impose controls on air and water discharges, storage, handling, discharge and disposal of waste, location of storage facilities, and other aspects of the operations of the Company's business. Financial penalties, administrative, legal proceedings against the Company, or revocation or suspension of the Company's licenses or operation of its facilities may arise should the Company fail to comply with relevant laws and regulations.

The Company has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, the Company has made and expects to continue to make capital expenditures on an ongoing basis to comply with safety, health, environmental and zoning laws and regulations.

There can be no assurance that the Company will be in compliance with all applicable laws and regulations or will not become involved in future litigation or other proceedings or be held responsible in any future litigation or proceedings relating to safety, health, environmental and zoning matters, the costs of which could be material. Safety, health, environmental and zoning laws and regulations in the Philippines are becoming more and more stringent over the years. There can be no assurance that the adoption of new safety, health, environmental and zoning laws and regulations, new interpretations of existing laws, increased governmental enforcement of safety, health, environmental and zoning laws or other developments in the future will not result in the Company being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade or relocate its facilities.

To mitigate this risk, the Company keeps itself updated on government policies and regulations pertaining to the oil industry. Through its Corporate Affairs department, the Company maintains lines of communication with regulatory agencies to allow Phoenix to identify potential regulatory risks and proactively respond to these risks.

Regulatory decisions and changes in the legal and regulatory environment could increase the Company's operating costs and adversely affects its business, results of operations and financial condition.

Even though the local downstream oil industry is a deregulated industry, the Government has historically intervened to limit and restrict increases in the prices of petroleum products. On October 2, 2009, a state of national calamity in view of the devastation caused by typhoons "Ondoy" and "Pepeng" was called by former President Gloria Macapagal-Arroyo. Executive Order 839 was issued which called for the prices of petroleum products in Luzon to be kept at October 15, 2009 levels effective October 23, 2009. As a result of the Executive Order, prices of oil products were kept at said levels by the Company, affecting its profitability in Luzon for the period the executive order was in effect. On November 16, 2009, the price freeze was lifted. There is no assurance that the Government will not invoke similar measures or reinstate price regulation in the future, which may adversely affect the Company's results of operations.

The Company's operations are subject to various taxes, duties and tariffs. The Oil industry in the Philippines has experienced some key changes in its tax and duty structure. Import duties for crude oil and petroleum products were increased in January 1, 2005 from 3% to 5% which was then rolled back to 3%. In 2006, an additional 12% VAT was imposed by the Government on the sale or importation of petroleum products. As of July 4, 2010, import duties on crude oil and petroleum products were lifted. Such taxes, duties and tariffs may or may not change going forward, that could result to a material and adverse affect on the Company's business, financial condition and results of operations.

As indicated in the previous item, the Company has a group dedicated to monitor compliance with regulations as well as anticipate any new regulations that may be implemented by the authorities. This ensures that any additional costs resulting from changes in the legal and regulatory environment can be anticipated and prepared for by the Company.

The Company's business, and financial condition may be adversely impacted by the fluctuations in the value of the Philippine Peso against the U.S. dollar.

The Company's revenues are denominated in PHP while a bulk of its expenses, notably the cost of its imported petroleum products, is US$-denominated. In 2012, 92% of the Company's revenues were denominated in PHP, while approximately 85% of its cost of goods sold was denominated in US$. The Company's reporting currency in its financial statements is the PHP. Changes in the US$:PHP exchange rate may adversely affect the financial condition of the Company. Should the PHP depreciate, this would translate to higher foreign currency denominated costs and effectively affecting the Company's financial conditions. There can be no assurance that the Company could increase its Peso-denominated product prices to offset increases in its cost of goods sold or other costs resulting from any depreciation of the Peso. There can be no assurance that the value of the Peso will not decline or continue to fluctuate significantly against the U.S. dollar and any significant future depreciation of the Peso could have a material adverse effect on the Company's margins, results of operations and financial condition.

To mitigate this risk the Company limits its exposure to foreign currency denominated liabilities. The risk poised by foreign exchange fluctuations on the cost of its imported petroleum products is generally mitigated by the Company's ability to pass on any such additional costs to its selling prices.

Sales to Cebu Air comprise a significant amount of the Company's sales.

Revenues from the supply of jet fuel to Cebu Air, the Philippines' largest airline in terms of passengers carried, comprised almost 8% of the Company's total sales for 2012. This makes Cebu Air the Company's largest single corporate customer. While the Company has supplied Cebu Air with jet fuel since 2005, there is no long term fuel supply contract between the Company and Cebu Air. However, the Company enters into an annual supply contract or agreement with Cebu Air to ensure continuous purchase by the latter for the year ahead. Any disruption, reduction or material change in the business relationship between Cebu Air and the Company could adversely impact the Company's sales and results of operations. Aside from Cebu Air, the Company has no other customer or buyer that accounts for more than 3.5% of the Company's sales.

To mitigate the risk, the Company continues to expand its base of industrial customers, thus diversifying its risk that the loss of business from any one customer would have a material effect on the Company's sales.

The Company currently benefits from income tax holidays on the operation of certain of its depots. If the Company did not have the benefit of income tax holidays its profitability will be adversely affected, as it will have to pay income tax at the prevailing rates.

Under its registration with the BOI, the Company enjoys certain benefits, including an income tax holiday ("ITH") on the operations of the Davao Extension, the Calaca (Batangas) and the Zamboanga depots. In addition, the Company got approval this year 2012 for BOI registration with corresponding income tax holidays for its Cagayan de Oro City (Phividec) and Bacolod depots. The ITH runs for a period of five (5) years from the commencement of operations of each depot. Upon expiration of a tax holiday, the Company's income from a depot will be subject to prevailing income tax rates. In addition, if the Company fails to meet certain conditions imposed by the BOI, it may lose its right to the ITH. In such an event, the Company may not be able to continue to avail of the benefits under the ITH. The loss of the ITH would adversely affect the Company's profitability, as it would have to pay income tax at prevailing rates. In addition, there is no guarantee that the Company will be able to secure similar income tax holidays for any new depots that it may establish in the future or for the statutes granting the said ITH to be superseded or amended. . For example, the Company's registration as a New Industry Participant with New Investment in Storage, Marketing and Distribution of Petroleum Products (with Certificate of Registration No. 2010-184) provides that it is entitled to ITH until 15 November 2010. After the lapse of the ITH, the Company became liable for the regular corporate income tax. Any such inability by the Company to enjoy ITH benefits will have a material adverse effect on its business prospects, financial condition and results of operations.

The Company continuously monitors its compliance with the requirements and conditions imposed by the BOI to mitigate this risk.

The Company depends on certain key personnel, and its business and growth prospects may be disrupted if their services were lost.

Certain key executives and employees are critical to the continued success of the Company's business. There is no assurance that such key executives and employees will remain employed with the Company. Should several of these key personnel be unable or unwilling to continue their present roles, the Company may face difficulties in looking for replacements and the business and operations may be disrupted as a result translating to a potential material adverse effect on the financial condition and operations results of the Company.

To mitigate this risk the Company ensures that its compensation and benefit packages for its officers, staff and rank and file are competitive with industry standards. Promotions and pay raises are merit-based and performance appraisals are conducted regularly. Key personnel are also regularly sent to training programs in the Philippines and abroad to ensure that their knowledge and skills are continually updated.

The Company's controlling shareholder may have interests that may not be the same as those of other shareholders.

Udenna Corp, the ultimate holding company, directly or indirectly through PPHI and UMRC, holds 69% of the Company's outstanding common equity as of June 30, 2013. Neither Udenna nor PPHI is obligated to provide the Company with financial support or to exercise its rights as a shareholder in the Company's best interests or the best interests of the Company's other shareholders. Should there be a conflict between the interests of Udenna Corp or PPHI and the interests of the Company, the Company may be affected by the actions done by Udenna Corp.

The Company has an operating lease agreement with its parent, Udenna Corp, for the use of various properties for its operations and for office space. Furthermore, the Company regularly charters the use of marine tankers from its affiliate, CSC, for the hauling of its fuel products from suppliers' terminals and from its own depots to Company depots and to its customers. The Company also avails of the freight forwarding services of another affiliate, F2 Logistics, Inc., for the delivery of goods to customers and for internal movement of non-commercial cargo. While the Company believes that the terms of these transactions were negotiated on an arms-length basis, there is no assurance that the Company cannot avail of better terms if it contracted with parties other than its affiliates.

To mitigate this risk, the Company follows good corporate governance standards in dealing with its shareholders and other related parties. These standards include, but are not necessarily limited to, "arms-length" practices in all commercial dealings with related interests and transparency and full disclosure in all such dealings.

If the number or severity of claims for which the Company is insured increases, or if it is

required to accrue or pay additional amounts because the cost of damages and claims prove to be more severe than its insurance coverage, the Company's financial condition and results of operations may be materially adversely affected.

The Company uses a combination of self-insurance and reinsurance to cover its properties and certain potential liabilities. The Company's insurance coverage includes property, marine cargo and third party liability. The Company estimates the liabilities associated with the risks retained by it, in part, by considering historical claims, experience and other actuarial assumptions which, by their nature, are subject to a degree of uncertainty and variability. A number of external factors affect the uncertainty and variability including but not limited to future inflation rates, discount rates, litigation trends, legal interpretations and actual claim settlement patterns. If the number or severity of claims for which the Company is insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than its original assessments, the Company's financial condition, results of operations and cash flows may be materially adversely affected.

To mitigate this risk the Company continually reviews and updates its insurance policies so that it is reasonably protected from foreseeable events and risks. Insurance coverage is acquired through competitive bidding to ensure that the Company's premium costs are reasonable and at par with industry standards.

Risks Relating to the Philippines

The Company's business and sales may be negatively affected by slow growth rates and economic instability globally and in the Philippines.

The Company, since its commencement of operations, has derived all of its revenues and operating profits from sales of its petroleum products in the Philippines. The Company's business has mostly been influenced by the Philippine economy and the level of business activity in the country.

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso and debt restructuring, and has been significantly affected by economic volatilities in the Asia-Pacific region. The Company cannot assure prospective investors that one or more of these factors will not negatively impact Philippine consumers' purchasing power, which could materially and adversely affect the Company's financial condition and results of operations.

In addition, global financial, credit and currency markets have, since the second half of 2007, experienced, and may continue to experience, significant dislocations and liquidity disruptions. There is significant uncertainty as to the potential for a continued downturn in the U.S. and the global economy, which would be likely to cause economic conditions in the Philippines to deteriorate.

A slowdown in the Philippine economy may adversely affect consumer sentiment and lead to a reduction in demand for the Company's products. There is also no assurance that current or future Government administrations will adopt economic policies conducive to sustaining economic growth.

Political instability or acts of terrorism in the Philippines could destabilize the country and may have a negative effect on the Company.

The Philippines has experienced political and military instability. In the past decade, political instability has been observed headlined by impeachment proceedings against former presidents

Joseph Estrada and Gloria Macapagal-Arroyo, and public and military protests arising from alleged misconduct by previous administrations. There is no assurance that acts of election-related violence will not occur in the future and such events have the potential to negatively impact the Philippine economy. An unstable political environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operation environment in the Philippines, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Terrorist attacks have been observed in the Philippines since 2000. The conflict with the Abu Sayyaf organization continues. The Abu Sayyaf organization is being identified and associated with kidnapping and terrorist activities in the country including several bombing activities in the southern region of the country and is said to have ties with the al-Qaeda terrorist network.

On May 10, 2010, the Philippines held a presidential election, as well as elections for national (members of the Senate and the Congress) and local positions. This resulted in the election of Benigno Aquino III as the new President of the Philippines, effective June 30, 2010. Although there has been no major public protest of the change in government, there can be no assurance that the political environment in the Philippines will continue to be stable or that the new government will adopt economic policies conducive to sustained economic growth or which do not impact adversely on the current regulatory environment.

On August 23, 2010, a hostage situation occurred in Manila resulting to 8 dead hostages. This resulted in the Hong Kong Special Administrative Region government issuing a "black" travel alert for the Philippines. Up to this time, this remains a political issue between the Philippines and Hong Kong effects on the business, financial condition and results of operations of the Company.

On October 2013 , an alleged group of Moro National Liberation Front (MNLF) siege Zamboanga City that resulted to a more than weeklong gun battle with the Philippine government forces. The said incident resulted to more than 100 deaths and thousands families displaced. An increase in the frequency, severity or geographic reach of terrorist attacks may destabilize the Government, and adversely affect the country's economy. There is no guarantee that the Philippines and the assets of the Company will not be subject to such acts of terrorism, resulting to potential adverse effect.

The occurrence of natural catastrophes or blackouts may materially disrupt the Company's operations.

The Philippines has encountered and is expected to experience a number of major natural catastrophes including typhoons, volcanic eruptions, earthquakes, mudslides, droughts or floods. Such natural catastrophes may cause disruption to the Company's operations, and distribution of its petroleum products. Electricity blackouts are also experienced caused by insufficient power generation following strong typhoons and other natural catastrophes. These types of events may materially disrupt and adversely affect the Company's business and operations. The Company cannot assure prospective investors that the insurance coverage it maintains for these risks will adequately compensate the Company for all damages and economic losses resulting from natural catastrophes or blackouts, including possible business interruptions.

If foreign exchange controls were to be imposed, the Company's ability to access foreign currency to purchase petroleum, petroleum products, raw materials, equipment and other imported products, could be adversely affected.

Generally, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee. The Government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations. The Company purchases some critical materials, particularly petroleum and petroleum products, and some capital equipment from abroad and needs foreign currency to make these purchases. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there can be no assurance that the Government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restrictions imposed in the future could adversely affect the ability of the Company to purchase petroleum and other materials and equipment from abroad in U.S. dollars.

Regulatory decisions and changes in the legal and regulatory environment could increase the Company's operating costs and adversely affects its business, results of operations and financial condition.

Even though the local downstream oil industry is a deregulated industry, the Government has historically intervened to limit and restrict increases in the prices of petroleum products. On October 2, 2009, a state of national calamity in view of the devastation caused by typhoons "Ondoy" and "Pepeng" was called by former President Gloria Macapagal-Arroyo. Executive Order 839 was issued which called for the prices of petroleum products in Luzon to be kept at October 15, 2009 levels effective October 23, 2009. As a result of the Executive Order, prices of oil products were kept at said levels by the Company, affecting its profitability in Luzon for the period the executive order was in effect. In recent times, the government, through the Department of Trade and Industry (DTI), issues price freeze order on areas declared under state of calamity. On November 16, 2009, the price freeze was lifted. There is no assurance that the Government will not invoke similar measures or reinstate price regulation in the future, which may adversely affect the Company's results of operations.

The Company's operations are subject to various taxes, duties and tariffs. The Oil industry in the Philippines has experienced some key changes in its tax and duty structure. Import duties for crude oil and petroleum products were increased in January 1, 2005 from 3% to 5% which was then rolled back to 3%. In 2006, an additional 12% VAT was imposed by the Government on the sale or importation of petroleum products. As of July 4, 2010, import duties on crude oil and petroleum products were lifted. Such taxes, duties and tariffs may or may not change going forward, that could result to a material and adverse affect on the Company's business, financial condition and results of operations.

As indicated in the previous item, the Company has a group dedicated to monitor compliance with regulations as well as anticipate any new regulations that may be implemented by the authorities. This ensures that any additional costs resulting from changes in the legal and regulatory environment can be anticipated and prepared for by the Company.

The Company's Shares are subject to Philippine foreign ownership limitations.

The Philippine Constitution and related statutes restrict the grant of lease covering foreshore land to Philippine Nationals. As of the date of this Prospectus, the foreshore land over which the pier facilities of the Company's subsidiary are located is leased from the Philippine government and, therefore, foreign ownership in the Company is limited to a maximum of 40% of the Company's issued and outstanding capital stock. Furthermore, the Company owns land which likewise subjects it to foreign ownership restrictions under the Philippine Constitution. This nationality ownership restriction may adversely affect the liquidity and market price of the Preferred Shares to the extent international investors are restricted from purchasing the Preferred Shares in normal secondary transactions. This risk is beyond the control of the Company.

RISKS RELATING TO THE PREFERRED SHARES

Dividends on Preferred Shares may not be paid in full.

Dividends on the Preferred Shares may not be paid in full, or at all. Under the terms and conditions governing the Preferred Shares, the Company may pay no dividends or less than full dividends on a Dividend Payment Date. Under existing law and SEC regulations, the Company may not pay dividends during any period where the Company does not have retained earnings out of which to pay dividends.

Furthermore, the payment of dividends by the Company may be limited by the terms of the Company's other indebtedness. The terms of the Company's existing loans contain provisions that could limit the ability of the Company to make dividend payments on the Preferred Shares. Also, the Company may, directly or indirectly through its subsidiary, enter into other financing arrangements in the future which may restrict or prohibit the ability of the Company to make dividend payments on the Preferred Shares. There can be no assurance that existing or future financing arrangements will not adversely affect the Company's ability to make payments on the Preferred Shares

The Preferred Shares are subordinated to the Company's other indebtedness.

The Company's obligations in respect of the Preferred Shares are subordinated to all of the Company's indebtedness, and it will not make any payments under the Preferred Shares unless it can satisfy in full all of its other obligations that rank senior to the Preferred Shares.

The Company's obligations under the Preferred Shares are unsecured and will, in the event of the winding-up of the Company, rank junior in right of payment to all indebtedness of the Company and junior in right of payment to securities of, or claims against, the Company which rank or are expressed to rank senior to the Preferred Shares. Accordingly, the Company's obligations under the Preferred Shares will not be satisfied unless it can satisfy in full all of its other obligations ranking senior to the Preferred Shares.

There are no terms in the Preferred Shares that limit the Company's ability to incur additional indebtedness, including indebtedness that ranks senior to or pari passu with the Preferred Shares.

Holders of Preferred Shares may be exposed to insufficient distributions upon liquidation of the Company.

Upon any voluntary or involuntary dissolution, liquidation or winding up of the Company, holders of Preferred Shares will be entitled only to the available assets of the Company remaining after the Company's indebtedness is satisfied. If any such assets are insufficient to pay the full amount due to the holders of the Preferred Shares, then holders of Preferred Shares shall share ratably in any such distribution of assets in proportion to the full distributions to which they would otherwise be respectively entitled.

The Preferred Shares have no stated maturity date and the Company has the sole right to redemption.

The Preferred Shares have no fixed maturity date, and the Preferred Shares are not repayable in cash unless the Company, at its sole discretion, redeems them for cash. Furthermore, holders of the Preferred Shares have no right to require the Issuer to redeem the Preferred Shares. The Preferred Shares are only redeemable at the option of the Issuer on the Optional Redemption Date or any Dividend Payment Date thereafter. In addition, the Preferred Shares may be redeemed by the Issuer in the event that Dividend Payments become subject to additional withholding tax as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to Phoenix. Accordingly, if a Preferred Shareholder wishes to obtain the cash value of the investment, the holder will have to sell the Preferred Shares in the secondary market.

Transfers of the Preferred Shares are restricted.

The Preferred Shares will be issued as exempt securities under the SRC Rule 10.1. As such, the initial purchase and subsequent transfers of the Preferred Shares are restricted to Qualified Institutional Buyers as defined under SRC Rule 10.1 (k) and (l). Furthermore, the underwriter is not obligated to create a trading market for the Preferred Shares and any such market making will be subject to the limits imposed by applicable law, and may be interrupted or discontinued at any time without notice. There can be no assurance that a shareholder may be able to liquidate his Preferred Shares at the time that he requires it. Consequently, a shareholder may be required to hold his Preferred Shares for an indefinite period of time or sell them for an amount less than the Offer Price.

Holders of Preferred Shares have no voting rights.

Holders of Preferred Shares will not be entitled to elect the Directors of the Company. Except as specifically set forth in the Articles of Incorporation and as provided by Philippine law, holders of Preferred Shares will have no voting rights (see ''Description of the Preferred Shares'' on page 20).

MANAGEMENT OF RISKS

In general, the Company believes that the risk factors discussed herein are mitigated by its competitive strengths and business strategies. See discussion on Competitive Strengths and Business Strategy on pages 64 and 65 of this Prospectus.

USE OF PROCEEDS

The Offer shall enable the Company to raise approximately ₱500,000,000.00 in proceeds at ₱100.00 per share for 5,000,000 preferred shares. The whole amount of the proceed shall be used to redeem the first tranche of preferred shares worth ₱500,000,000.00 issued by the Company on September 21, 2010.

DETERMINATION OF OFFER PRICE

The Offer consisted of issuance of 5,000,000 Preferred Shares out of the Company's unissued Preferred Shares capital stock. Considering that the purpose of this issuance was for the redemption of the first tranche of Preferred Shares, the Offer Price of Php100.00 was determined on the basis of the Issue Price of the first tranche, which is Php100.00.

The pertinent provision of the Subscription Agreement and the Term Sheet executed on September 21, 2010 reads:,

Optional Redemption	:	As and if declared by the Board of Directors, the Company may redeem the Issue beginning the fourth (4th) year from Issue Date (the "Optional Redemption Date") or on any Dividend Payment Date thereafter subject to a minimum sixty (60) days' written notice to all Preferred Shareholders prior to the redemption date, <u>at a price equal to the Issue Price plus all accrued and unpaid dividends due, if any, up to the date of actual redemption by the Company</u>.

DILUTION

The Offer pertains to the registration of the Company's preferred shares which under its features have no voting rights except those granted under the Corporation Code. Hence, there is no dilution in the common equity shares of the Company and/or its common shares stockholders. In other words, the ownership of the common shareholders shall have no effect on the offer and issuance of the Company's preferred shares except for the features it represent under the Corporation Code.

SELLING SECURITY HOLDERS

Since the issuance of the second tranche of the Company's Preferred Shares is for purposes of redeeming the first tranche of the Company's Preferred Shares, the Selling Security Holders with their corresponding shareholdings are as follows:

Name of Subscribers	Nature of Position/ Relationship	Number of Preferred Shares	Amount of Preferred Shares Subscribed (In Philippine Pesos)	Amount Paid Up (In Philippine Pesos)
PentaCapital Investment Corp (Duly represented by the President, Jovencio F. Cinco, and EVP-Treasurer and CFO, Jose Ma. A. De Leon)	Preferred Shareholder	3,000,000	300,000,000	300,000,000.00
BDO Private Bank Inc . – Wealth and Advisory and Trust Group as Trustee for Various Accounts (Duly represented by SV & Trust Officer, Rafael G. Ayuste, Jr., and SVP & Deputy Trust Officer, Jose Noel M. Mendoza)	Preferred Shareholder	1,400,000	140,000,000.00	140,000,000.00
Pioneer Life Inc. (Duly represented by the Treasurer, Ernesto O. Chan, and EVP & CFO, Molly C. Uyecio)	Preferred Shareholder	280,000	28,000,000.00	28,000,000.00
Prandial Corporation (Duly represented	Preferred Shareholder	200,000	20,000,000.00	20,000,000.00

by the President, Jose Antonio T. Valdez, and Vice-Pres., Raymond O'Santos)				
RCBC Trust and Investments Division As investments Manager for IMA#60-748-7 (Individual) (Duly represented by First Vice President, Raoul Martin V. Santos, and Asst. Vice-President, Ryan Roy W. Sinaon)	Preferred Shareholder	100,000	10,000,000.00	10,000,000.00
Easter Foundation Inc. (Duly represented by Chairman & President, Ricardo S. Pascua)	Preferred Shareholder	20,000	2,000,000.00	2,000,000.00
Grand Total		**5,000,000**	**500,000,000.00**	**500,000,000.00**

PLAN OF DISTRIBUTION

THE UNDERWRITER

The Offer shares were underwritten by the Issue Manager and Underwriter, PentCapital Investments Corporation ("PentaCapital") on a firm basis up to the aggregate principal amount of its Underwriting Commitment pursuant to the Underwriting Agreement dated 20 December 2013. PentaCapital is a leading independent investment house in the Philippines known for its unique expertise in project development and financing, specially for real estate, leisure and infrastructure projects. It has acquired its niche in the investment banking and financial services sectors, specifically: money market operations, consumer financing (through its 98%-owned subsidiary, PentaCapital Finance Corp.), debt and equity underwriting, financial advisory and project financing, specially for BOT/BLT projects.

It is managed by a team of experienced managers with combined experience for more than 150 years. Senior officers have extensive foreign and local experience in the field of merchant, investment and commercial banking, corporate finance, underwriting, project financing, mergers and acquisition, securitization, securities dealership, foreign exchange, money and capital markets, and investment management.

PentaCapital's net worth as of December 31, 2014 amounted to more than Php616 million.

PentaCapital is accredited and licensed by the Commission as an Investment House under CR No. 01-2008-00231 effective January 1, 2012 to December 31, 2014.

PentaCapital does not have any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto), and other than as Underwriter for the Offer, it does not have any relationship with the Company. Neither does the Underwriter have any right to designate or nominate a member/s on the board of directors of the Company.

UNDERWRITING COMMITMENT

The Issuer granted the Underwriter the authority to offer for subscription and purchase the Preferred Shares to any number of Qualified Buyers and/or to not more than nineteen (19) non-qualified Buyers in the Philippines.

It was agreed that the Preferred Shares shall be and was in fact issued in full on a one-time basis on the Subscription Date, December 20, 2013 in accordance with the procedure for the issuance of the Preferred Shares set forth in the Subscription Agreement.

The Underwriter, pursuant to its firm commitment, agreed to have irrevocably subscribed for and agreed to purchase on the terms set forth any portion of the Underwritten Shares not taken up by its Investors provided that the liability of the Underwriter to the Issuer arising from the Issue is strictly limited to the amount underwritten by it.

The Issuer and the Underwriter agreed that Issue Management fee in relation to the offer shall be equivalent to 0.50% of the gross proceeds from the Offer while the underwriting and selling *fees shall consist of 1.50% of the gross proceeds from the Offer or a total of 2% of the gross proceeds of the Offer.*

PLAN OF DISTRIBUTION

The Issuer granted the Underwriter the authority to offer for subscription and purchase Five Million (5,000,000.00) Peso-denominated Perpetual Preferred Shares Preferred Shares to any number of Qualified Buyers and/or to not more than nineteen (19) non-Qualified Buyers in the Philippines, subject to the restrictions on the transfer, assignment or resale of the Preferred Shares under the Subscription Agreement, as well as to Applicable Laws.

The actual number of Preferred Shares that an Investor will be allowed to subscribe for shall be subject to the confirmation of the Underwriter. The Issuer, through the Underwriter, shall have the right to accept or reject, in whole or in part, any offer to subscribe to or purchase the Preferred Shares or to scale down the amount of the Preferred Shares for which such offer is made. For the foregoing purpose, the Issuer authorizes the Underwriter to accept or reject any offer from Investors to subscribe to or purchase the Preferred Shares.

In the event that the Preferred Shares forming part of the Underwriting Commitment are insufficient to satisfy the offers to subscribe received by the Underwriter from Investors, or in the event of an oversubscription of the Preferred Shares, the Issuer, through the Underwriter, shall exercise the discretion to reallocate the number and amount of Preferred Shares which any Investor can subscribe to.

DESCRIPTION OF THE PREFERRED SHARES

Set forth below is information relating to the Preferred Shares. This description is only a summary and is qualified by reference to Philippine law and Phoenix's Articles of Incorporation and By-laws, copies of which are available at the SEC.

The Company's Share Capital

A Philippine Corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in the Articles of Incorporation and the By-Laws of the corporation.

On March 8, 2010, the SEC approved the application of the Company for the reclassification of 50,000,000 out of its 130,839,323 unissued common shares into 50,000,000 preferred shares and the corresponding amendment to its Articles of Incorporation.

The Company's Board of Directors approved on January 18, 2010, an amendment to the Company's Articles of Incorporation to reclassify a total of Fifty Million (50,000,000) unissued common shares with par value of One Peso (₱1.00) per share to Fifty Million (50,000,000) million preferred shares with par value of One Peso (₱1.00) per share. The amendment was likewise approved by the stockholders holding at least two-thirds of the outstanding capital stock of the Company through written assent on March 9, 2010.

As of February 28, 2010, the Company had an authorized capital stock consisting of 400,000,000 common shares with a par value of ₱1.00 per share, of which 267,660,677 shares were issued and outstanding.

As of March 8, 2010, and following the SEC approval of the Amended Articles of Incorporation embodying the preferred shares, the Company had an authorized capital stock consisting of:

(a) 350,000,000 common shares with a par value of ₱1.00 per share of which 267,660,677 shares are issued and outstanding and
(b) 50,000,000 preferred shares with a par value of ₱1.00 per share, which are unissued.

On September 21, 2010, the Company issued 5,000,000 preferred shares (the first tranche) at issue price of Php 100.00 by way of private placement and/or sale under SRC Rule 10.1 (k) and (l) to Qualified Institutional Buyer underwritten by PentaCapital Investment Corp.

On April 23, 2012, the SEC approved the Company's increase in authorized capital stock from Php 800.0 million divided into 750.0 million common shares with a par value of Php 1 and 50.0 million preferred shares with par value of Php1 per share to Php 2,550.0 billion divided into 2,500.0 billion common shares with par value of Php1 per share and 50.0 million preferred shares with par value of Php 1 per share.

Prior to the above increase, on September 7, 2010, the SEC approved the Company's increased in authorized capital stock from Php 400.0 million divided into 400.0 million common shares with a par value of Php 1 per share to Php 800.0 million divided into 750.0 million common shares with par value of Php 1 per share and 50.0 million preferred shares with par value of Php 1 per share.

Following the Offer, the Company will have the following and issued and outstanding shares:

(a) 1,428,777,232 common shares and
(b) 5,000,000 treasury preferred shares
(c) 5,000,000 preferred shares.

The Preferred Shares – General Features

The Preferred Shares shall have the following features, rights and privileges:

- The Offer Price of the Preferred Shares will be determined at the time of issuance;
- The dividend rate of the Preferred Shares will be determined at the time of issuance;
- Cumulative in payment of current dividends as well as any unpaid back dividends;
- Non-convertible into common shares;
- Preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation of the Company and in the payment of the dividend at the rate specified at the time of issuance;
- Non-participating in any other or further dividends beyond the dividends specifically payable on the Preferred Shares;
- Non-voting except in those cases specifically provided by law;
- No pre-emptive rights to any subsequent issue of the Company's shares; and
- Redeemable at the option of the Company under such terms as the Board may approve at the time of the issuance of the Preferred Shares.

The holders of the Preferred Shares do not have identical rights and privileges with holders of the existing common shares of the Company.

Features Specific or Particular to the Preferred Shares

Following are certain features specific or particular to the Preferred Shares.

In General: No Voting Rights

The Preferred Shares shall have no voting rights except as specifically provided by the Corporation Code. Thus, holders of the Preferred Shares shall not be eligible, for example, to vote for or elect the Company's Directors or to vote for or against the issuance of a stock dividend. Holders of Preferred Shares, however, may vote on matters which the Corporation Code considers significant corporate acts that may be implemented only with the approval of shareholders, including those holding shares denominated as non-voting in the articles of incorporation. These acts, which require the approval of shareholders representing at least two-thirds of the issued and outstanding capital stock of the Company in a meeting duly called for the purpose, are as follows:

- Amendment of the Articles (including any increase or decrease of capital stock);
- Amendment of the Company's By-laws;

- Sale, lease, exchange, mortgage, pledge or other disposition of all or a substantial part of the Company's assets;
- Incurring, creating or increasing bonded indebtedness;
- Increase or decrease of capital stock;
- Merger or consolidation of the Company with another corporation or corporations; and
- Investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the Company was organized; and
- Dissolution of the Company.

Dividend Policy In Respect of the Preferred Shares

The declaration and payment of dividends on each Dividend Payment Date will be subject to the sole and absolute discretion of the Board to the extent permitted by law. As and if dividends are declared by the Board, dividends on the Shares shall be at a fixed rate of 8.25% per annum calculated in respect of each Share by reference to the Offer Price thereof in respect of each Dividend Period.

Dividends on the Shares will be payable on December 20, March 20, June 20, and September 20 of each year (each a Dividend Payment Date). The dividends on the Shares will be calculated on a 30/360-day basis and will be paid quarterly in arrears on the last day of each 3-month Dividend Period (each a Dividend Payment Date), as and if declared by the Board. If the Dividend Payment Date is not a Banking Day, dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of dividends to be paid.

The Board of Directors will not declare and pay dividends on any Dividend Payment Date where (a) payment of the Dividend would cause the Company to breach any of its financial covenants or (b) the profits available to the Company to distribute as dividends are not sufficient to enable the Company to pay in full both the dividends on the Preferred Shares and the dividends on all other classes of the Company's shares that are scheduled to be paid on or before the same date as the dividends on the Preferred Shares and that have an equal right to dividends as the Preferred Shares.

If the profits available to distribute as dividends are, in the Board's opinion, not sufficient to enable the Company to pay in full on the same date both dividends on the Preferred Shares and the dividends on other shares that have an equal right to dividends as the Preferred Shares, the Company is required first, to pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that dividend payment date on any shares with a right to dividends ranking in priority to that of the Preferred Shares; and second, to pay dividends on the Preferred Shares and any other shares ranking equally with the Preferred Shares as to participation in profits pro rata to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include the amount of any dividend payable on that date and any arrears on past cumulative dividends on any shares ranking equal in the right to dividends with the Preferred Shares.

The profits available for distribution are, in general and with some adjustments, equal to the Company's accumulated, realized profits less accumulated, realized loss.

Dividends on the Shares will be cumulative. If for any reason the Company's Board does not declare a dividend on the Shares for a dividend period, the Company will not pay a dividend on the Dividend Payment Date for that dividend period. However, on any future Dividend Payment Date on which dividends are declared, holders of the Shares must receive the dividends due them on such Dividend Payment Date as well as all dividends accrued and unpaid to the holders of the Shares prior to such Dividend Payment Date.

Holders of Shares shall not be entitled to participate in any other or further dividends beyond the dividends specifically payable on the Shares.

Redemption of the Preferred Shares

As and if declared by the Board, the Issuer may redeem the Preferred Shares on the beginning the fourth year from the Issue Date (the Optional Redemption Date) or any Dividend Payment Date thereafter in whole (but not in part only), at a redemption price equal to the Issue Price of the Shares plus accrued and unpaid dividends for all dividend periods up to the date of actual redemption by the Company.

The Company may purchase the Shares at any time by private contract at any price. The Shares so purchased may either be redeemed and cancelled (after the Redemption Date) or kept as treasury shares.

Early Redemption due to Taxation

If payments become subject to additional withholding or any new tax as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to the Company even before the Optional Redemption Date, the Company may redeem the Preferred Shares in whole, but not in part, on any Dividend Payment Date (having given not more than 60 nor less than 30 days' notice) at the Offer Price plus all accrued and unpaid dividends, if any.

Liquidation Rights in Respect of the Preferred Shares

The Preferred Shares will constitute the direct and unsecured subordinated obligations of the Company ranking at least pari passu in all respects and ratably without preference or priority among themselves with all other Preferred Shares issued by the Company.

In the event of a return of capital in respect of the Company's winding up or otherwise (whether voluntarily or involuntarily) but not on a redemption or purchase by the Company of any of its share capital, the holders of the Preferred Shares at the time outstanding will be entitled to receive, in Pesos out of the Company's assets available for distribution to shareholders, together with the holders of any other of the Company's shares ranking, as regards repayment of capital, pari passu with the Preferred Shares and before any distribution of assets is made to holders of any class of the Company's shares ranking after the Preferred Shares as regards repayment of capital, liquidating distributions in an amount equal to the Issue Price of the Preferred Share plus an amount equal to any dividends declared but unpaid in respect of the previous dividend period and any accrued and unpaid dividends for the then-current dividend period to (and including) the date of commencement of the Company's winding up or the date of any such other return of capital, as the case may be. If, upon any return of capital in the Company's winding up, the amount payable with respect to the Preferred Shares and any other of the Company's shares ranking as to any such distribution pari passu with the Preferred Shares are not paid in full, the holders of the Preferred Shares and of such other shares will share ratably in any such distribution of the Company's assets in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Preferred Shares will have no right or claim to any of the Company's remaining assets and will not be entitled to any further participation or return of capital in a winding up.

Payments on the Preferred Shares

All payments in respect of the Preferred Shares are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including but not limited to, stamp, issue, registration, documentary, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the Company will pay additional amounts so that holders of the Preferred Shares will receive the full amount of the relevant payment which otherwise would have been due and payable. Provided, however, that the Company shall not be liable for: (a) the final withholding tax applicable on dividends earned on the Preferred Shares prescribed under the National Internal Revenue Code of 1997, (b) expanded value added tax which may be payable by any holder of the Preferred Shares on any amount to be received from the Company under the Preferred Shares and (c) any withholding tax on any amount payable to any holder of the Share or any entity which is a non-resident foreign corporation.

Documentary stamp tax for the primary issue of the Shares and the documentation, if any, shall be for the account of the Company.

The standard taxes applicable to the subsequent sale of the Preferred Shares by any holder of the Preferred Shares shall be for the account of the said holder.

No Pre-emptive Rights

There are no pre-emptive rights extended to holders of Preferred Shares over all share issuances of the Company.

Transfer of Shares and Share Register

The Preferred Shares will be issued in certificated form.

Legal title to the Preferred Shares will be shown in the Register of Shareholders which shall be maintained by the Registrar. The Registrar shall send (at the cost of the Company) at least once every quarter a Statement of Account to all Shareholders named in the Register of Shareholders confirming the number of Shares held by each Shareholder on record in the Register of Shareholders. Such Statement of Account shall serve as evidence of ownership of the relevant Shareholder as of a given date thereof. Any request by Shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Shareholder.

Initial placement of the Preferred Shares and subsequent transfers of interests in the Preferred Shares shall be subject to normal Philippine selling restrictions for unlisted securities as may prevail from time to time.

Board Representation

The holders of the Preferred Shares may elect (1) one Ex-Officio representative to the Company's Board of Directors.

Not convertible into Common Shares

The Preferred Shares shall not be convertible into Phoenix's common shares.

INTEREST OF NAMED EXPERT AND INDEPENDENT COUNSEL

All legal opinion/matters in connection with the issuance of the Preferred Shares which are subject of this Offer shall be passed upon by De Borja Marasigan Allado Law Partnership ("DBMA"), for the Issue Manager and Underwriter, and the Law Firm of Uy Cruz Lo & Associates ("UCLO") for the Company. DBMA and UCLO have no direct and indirect interest in the Company. DBMA and UCLO, from time to time, be engaged by the Company to advise in its transactions and perform legal services on the same basis that they provide such services to its other clients.

Independent Auditors

The Company's results of operations and financial position have been and will be affected by certain changes to Philippine Financial Reporting Standard ("PFRS"), which are intended to further align PFRS with International Financial Reporting Standards.

The Financial Statements of the Company appearing in this Prospectus have been audited by Punongbayan & Araullo ("P&A"), independent auditors, as set forth in their report thereon appearing elsewhere in this Prospectus.

The Company's Audit Committee reviews and approves the scope of audit work of the independent auditor and the amount of audit fees for a given year. The amount will then be presented for approval by the stockholders in the annual meeting. As regards to services rendered by the external auditor other than the audit of financial statements, the scope of and the amount for the same are subject to review and approval by the Audit Committee.

The Company's aggregate audit fees for each of the last two fiscal years for professional services rendered by the external auditor were ₱2,860,000.00 and ₱6,102,000.14 for 2012 and 2013, respectively.

Except for the subscription of the Underwriter of the Company's Offer, there are no direct or indirect interest of any named expert as defined by the SRC nor its independent counsel. The services of the independent counsel or any of the Company's Underwriter, promoter of this Offer were not hired on contingent basis and thus, has not acquired any direct or indirect interest in the Company.

INDUSTRY OVERVIEW and COMPETITIVE OVERVIEW

The information and data contained in this section have been taken from sources in the public domain. The Company does not have any knowledge that the information herein is inaccurate in any material respect. Neither the Company, the Underwriter nor any of their respective affiliates or advisors has independently verified the information included in this section.

PHILIPPINE OIL INDUSTRY

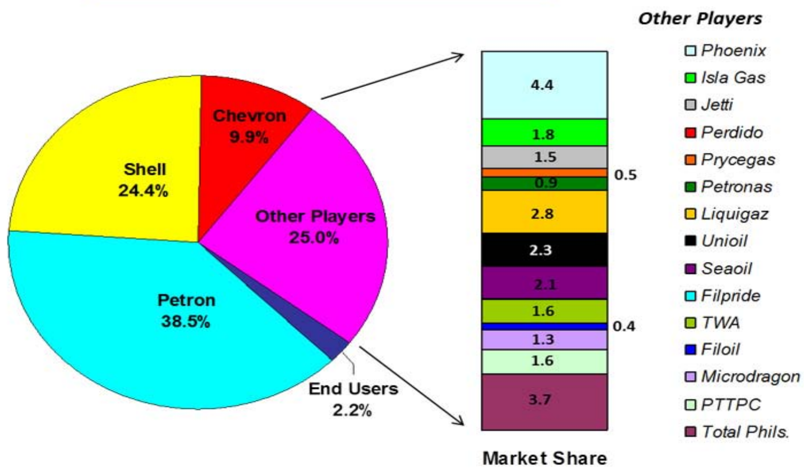
Following the enactment of the Downstream Oil Industry Deregulation Act in 1998, the deregulated Philippine downstream oil industry is currently dominated by three major players, Petron, Shell, and Chevron (who had previously converted its refinery into an import terminal in 2003 and operates as a marketing and distribution company) which accounted for 72.8% of the total market share as at year end 2012.

On the other hand, other 15 new players include foreign owned firms to such as PTT of Thailand, Petronas of Malaysia, Liquigaz of Netherlands and Total of France. While other local players including Phoenix Petroleum, Isla Gas, W. Precision, Cross Country, Ixion, Jetti, Prycegas, Seaoil Corp., TWA/Filpride, Filoil, Micro Dragon capturing 25% of the market for the said year.

The entry of these new players resulted in increased competition amongst local players leading to better quality products and facilities, improved service at gas stations, and a shift to a new image of retail service stations which provide amenities (i.e. convenience stores, restrooms, and automated teller machine counters, etc.) within their premises.

TOTAL PETROLEUM PRODUCTS (MARKET SHARE):

Fig. 3 FY 2012 Market Share



Source: DOE website

The following activities are characterized under the Philippine downstream oil industry:

- Crude oil Importation from foreign suppliers;
- Refineries as processing and storage of intermediate and refined products;
- Logistic transfers to various bulk plants/depots through tankers barges or the Batangas-Manila pipeline; and
- Refined/finished products from depots to retail outlets and industrial clients via land distribution

Demand

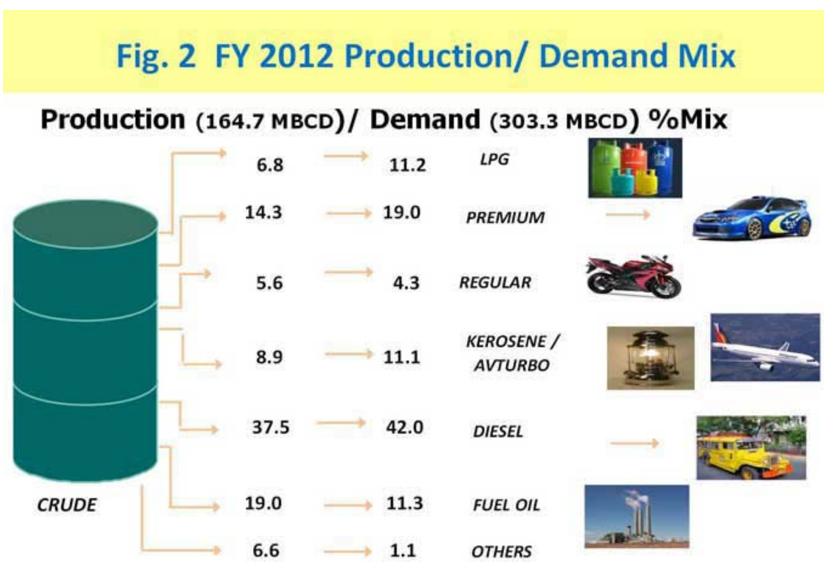
Petroleum Production and Demand

Petroleum Product Demand

The country's total demand of finished petroleum products in year 2012 was up by 3.9 percent to 110,991 MB from 106,857 MB of year 2011. This can be translated to an average daily requirement of 303.3 MB compared with last year's level of 292.8 MB.

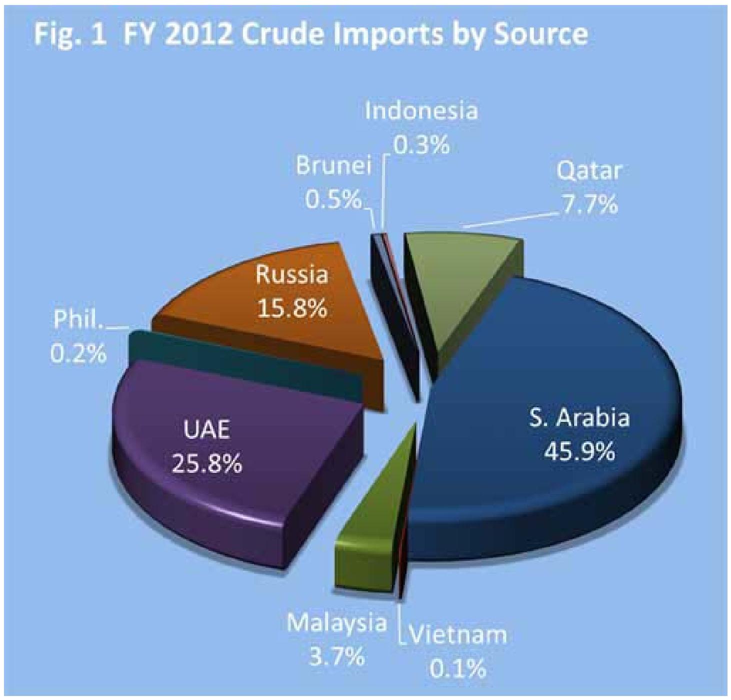
Compared with last year, unleaded gasoline demand posted an increase of 6.0 percent while diesel oil demand rose by 4.5 percent. Kerosene/avtubo demand also grew by 4.0 percent. On the other hand, demand of LPG and fuel oil dropped by 1.5 and 0.4 percent, respectively.
Product demand mix comprised mostly of diesel oil at 42.0 percent, unleaded gasoline at 23.3 percent, fuel oil at 11.3 percent, LPG at 11.2 percent, kerosene/ avturbo at 11.1 percent and other products at 1.1 percent share in the total product mix (Fig. 2).

Demand breakdown for oil products is as follows as of year end 2012.



Crude Oil Imports

Total crude oil imported in 2012 reached 64,941 MB, a drop of 6.7 percent vis-à-vis 2011's 69,615 MB.
Of these imports, 51,556 MB or 79.4 percent of the crude mix originated from the Middle East. The bulk of the imported crude oil from the Middle East came from Saudi Arabia: 29,784 MB or equivalent to 45.9 percent of the total crude mix (Fig. 1).



On the other hand, a total of 16,754 MB, equivalent to 25.8 percent of the total crude mix, were imported from UAE; 10,253 MB or 15.8 percent came from Russia and 5,018 MB or 7.7 percent was bought from Qatar.

The remaining 4.8 percent (3,131 MB) was imported from the Far East Region such as Malaysia, Brunei, Indonesia and Vietnam and from local production.

Petroleum Product Imports

The country imported a total of 54,754 MB finished petroleum products in 2012, an increase of 18.9 percent from 46,065 MB of 2011.

Meanwhile, on a per product basis, diesel oil posted the biggest growth of 35.7 percent as compared with last year's level. Kerosene/avturbo and unleaded gasoline also rose by 20.6 and 10.7 percent, respectively. On the other hand, fuel oil imports and LPG dropped by 18.0 and 0.8 percent, respectively.
The new industry players accounted for majority of the product imports with 54.2 percent of the

total imports volume, up by 9.1 percent to 29,678 MB from 2011's 27,193 MB. The oil majors (Petron, Chevron and Shell) accounted for the remaining 45.8 percent which increased by 32.9 percent from 2011's 18,872 MB to 25,076 MB.

The local refiners (Petron and Pilipinas Shell) accounted for 26.0 percent of the total product imports, which included blending stocks, as against 74.0 percent by direct importers.
Product import mix comprised mostly of diesel oil at 45.5 percent, unleaded gasoline at 22.6 percent, LPG at 15.2 percent, kerosene/ avturbo at 11.1 percent, fuel oil at 3.4 percent and other products at 2.2 percent share in the total product mix.

Total gasoline import reached 47.7 percent of gasoline demand while diesel oil import was 53.5 percent of diesel demand. LPG import on the other hand, was 66.9 percent of LPG demand. Total product import was 49.3 percent of the total products demand.

The oil majors' import share in the total demand was 22.6 percent while the other players' import share was at 26.7 percent. As for the refiners, their import share in the total demand was 12.8 percent, while 36.5 percent was attributed to direct importers.

Crude Run and Refinery Production

The country's current maximum working crude distillation capacity is 275 thousand barrels per stream day (MBSD).

Total crude processed as of YTD December 2012 fell by 10.0 percent from 69,288 MB of YTD December 2011 to 62,391 MB. The reported refinery capacity utilization also declined by 10.3 percent from 69.1 percent in YTD December 2011 to 62.0 percent this year. This was due to the successive shutdown of the two refineries in the country sometime in the 2nd quarter of 2012 for turnaround/maintenance schedule.
Consequently, local petroleum refinery production output also declined by 10.5 percent from 67,375 MB to 60,293 MB. FY 2012 average refining output was at 164.7 MB per day

Downstream Oil Industry Deregulation Law

Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the "Oil Deregulation Law"), provides the regulatory framework for the country's downstream oil industry.

Under the Oil Deregulation Law, any person may import or purchase any quantity of crude oil and petroleum products from foreign and domestic sources, lease or and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high quality petroleum products. To ensure the attainment of these objectives, the DOE, in consultation with relevant Government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Law in March 1998 through Department Circular No. 98-03-004. The DOE is the lead Government agency overseeing the oil sector. With the enactment of the Oil Deregulation Law, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory solely to monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Law include the following:

(a) monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;

(b) monitoring the refining and manufacturing processes of local petroleum products to ensure clean and safe technologies are applied;

(c) maintaining a petroleum prod

(d) immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and

(e) in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person or entity engaged in the industry.

Trends in the Industry

Tighter Fuel Specifications

The Clean Air Act was enacted in 1999 which required gasoline and automotive diesel to have lower sulfur and benzene content. The act was intended to address growing and looming concerns over the hazardous effects of gas emissions to both the environment and human health. Although local requirements lag behind international standards, local fuel specifications are expected to catch up and meet the stricter standards of developed countries going forward.

Alternative Fuels

The Biofuels Act of 2006 calls for the mandatory blending of biofuels of oil companies into their oil products to offer ethanol-blended gasoline products. The Biofuels Act also calls for incentives to biofuels producers. A 5% blend of ethanol is mandated for gas by 2009 and 10% by 2011. For diesel products, a 1% blend of biodiesel was required by 2007 and 2% starting 2009.

Taxi owners and operators continue to convert their units to allow the use of LPG instead of gasoline as a means to save on costs and improve their profitability. LPG pumps are slowly increasing in retail service stations of oil companies and new companies are entering the LPG retail service station industry to capture this growing market.

Another alternative fuel being eyes is compressed natural gas (CNG). While Congress has passed the law providing incentives to producers and users of CNG, the necessary infrastructure has not yet been put in place. The planned “mother” and “daughter” natural gas stations of Shell, intended for use by public buses plying the route of Southern Luzon, are not yet operational.

Larger Retail Service Stations

Foreign-owned gasoline stations have put up retail stores following the liberalization of the retail trade industry. Larger retail service stations have since then been seen more regularly with most of them being put up in strategic areas along major expressways. These retail stations would also have retail establishments where other businesses can look to lease or rent space for their own operations and expansion. Among the common tenants of these retail establishments are quick serve businesses including the likes of Jollibee, McDonald's, KFC and Starbucks to name a few. These large retail service stations cater to retail clients who look for gasoline products, snacks and refreshments.

Furthermore, oil companies have put up their own convenience stores along side their retail service stations, carrying their own brand. Petron has "Treats", Shell has "Select" and Chevron has "StarMart". However, in recent years, these oil companies started to outsource the convenience stores to locators like 7/11, Mini-stop and other local brands.

OIL IMPORT BILL

Full year 2012 total oil import bill amounting to $13,861.2 million was up by 7.9 percent from full year 2011's $12,846.2 million despite the decrease in crude import volume. This is due to high import costs of both crudes and finished products during the period as compared to year ago level.

Total oil import cost was made up of 53.6 percent crude oil and 46.4 percent finished products.

Import cost of crude oil, amounting to $7,430.9 million at an average CIF cost of $114.426/bbl, was 2.1 percent lower than $7,590.1 million of year 2011 at an average CIF cost of $109.932/bbl.

Meanwhile, total product import cost increased by 22.3 percent to $6,430.2 million at an average CIF cost of $117.438/bbl vis-à-vis 2011's $5,256.1 million at an average CIF cost of $114.102/bbl.

With the decreased volume of petroleum products and crude oil exported for the period, the country's petroleum export earnings fell by 30.3 percent from $1,770.6 million of 2011 to $1,233.9 million this year.

Overall, the country's 2012 net oil import bill amounting to $12,627.3 million was up by 14.0 percent from 2011 level of $11,075.7 million.

(Excerpt from DOE website)

THE COMPANY

1. OVERVIEW

The Company is engaged in the business of trading refined petroleum products, lubricants and other chemical products, operation of oil depots and storage facilities, and allied services mainly in southern Philippines. Its products and services are distributed and marketed under the *PHOENIX Fuels Life*™ trademark.

The Company was incorporated in the Philippines on May 8, 2002 under its original name of “Oilink Mindanao Distribution, Inc.” On 11 January 2004, the Company amended its Articles of Incorporation changing its name from Oilink Mindanao Distribution, Inc. to “Davao Oil Terminal Services Corp.” It is owned by PPHI, Udenna Corporation, and Udenna Management and Resources Corporation, 68% in aggregate, companies organized in the Philippines which are controlled by the Company’s founder. On August 7, 2006, the SEC approved the amended articles of incorporation of the Company changing its name from Davao Oil Terminal Services Corp. to “P-H-O-E-N-I-X Petroleum Philippines, Inc.”

The Company is registered with the BOI effective November 16, 2005 as a New Industry Participant with the New Investment in Storage, Marketing and Distribution of Petroleum Products pursuant to the Downstream Oil Industry Deregulation Act. As a registered company, it is entitled to certain benefits including Income Tax Holiday for a period of five (5) years from the date of registration. The Company further avails of BOI benefits under the law as result of the additions and expansion of its storage facilities.

Its operations are divided between Trading, and Terminaling and Hauling Services. Under Trading, the Company offers its refined petroleum products and lubricants to retailers and industrial customers. The Company sells its products through its network of retail service stations numbering 368 as of end-December 2013. The retail service stations are classified as CODOs or DODOs.

The Company’s Terminaling and Hauling Services involve leasing of storage space in its terminal depot, hauling and into-plane services (hauling of Jet A1 fuel to airports and refueling of aircraft) in Davao, Cagayan de Oro, General Santos City and Cotabato City. Starting 2005, Cebu Pacific designated the Company as its exclusive logistics partner in these locations.

HISTORY

Phoenix was incorporated under the laws of the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (“SEC”) on May 8, 2002.

The Company is engaged in the business of trading refined petroleum products, lubricants and other car care products, the operation of oil depots and storage facilities, and allied services. The Company’s operations started in the Southern Philippines in 2002 and by 2008, operations had expanded to Luzon and the Visayas. The Company’s products and services are distributed and marketed under the *PHOENIX Fuels Life*™ trademark.

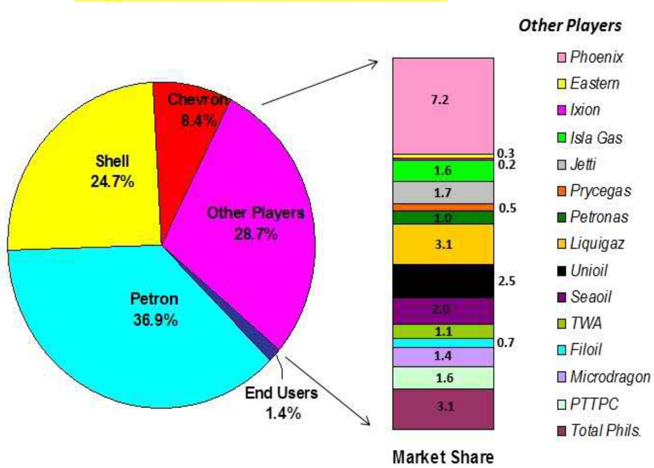
The Company's operations comprise trading, terminal, depot and hauling services. Under trading, the Company sells its refined petroleum products (including Jet A1 fuel) and lubricants to retailers and commercial and industrial customers.

As of December 31, 2013, the Company has a total of 368 service stations with 112 service stations located in Luzon, 47 in the Visayas and 209 in Mindanao. The retail service stations are classified as CODO or DODO. Its main area of retail operations is in Mindanao, where the Company started operations in 2002. The Company presently has a nationwide network of depots and retail stations. Its industrial customers include air, land and sea transport companies and other industrial users.

The Company's terminal, depot and hauling services involve the leasing out of storage space at its terminal depot, hauling of fuels and into-plane services (hauling of Jet A1 fuel to airports and refueling of aircraft) in Davao, Cagayan de Oro City, General Santos City, Cotabato City, Ozamis City, Pagadian City and Zamboanga City. Since 2005, the Company has been providing all of Cebu Air's terminal, hauling and into-plane requirements for its Mindanao operations.

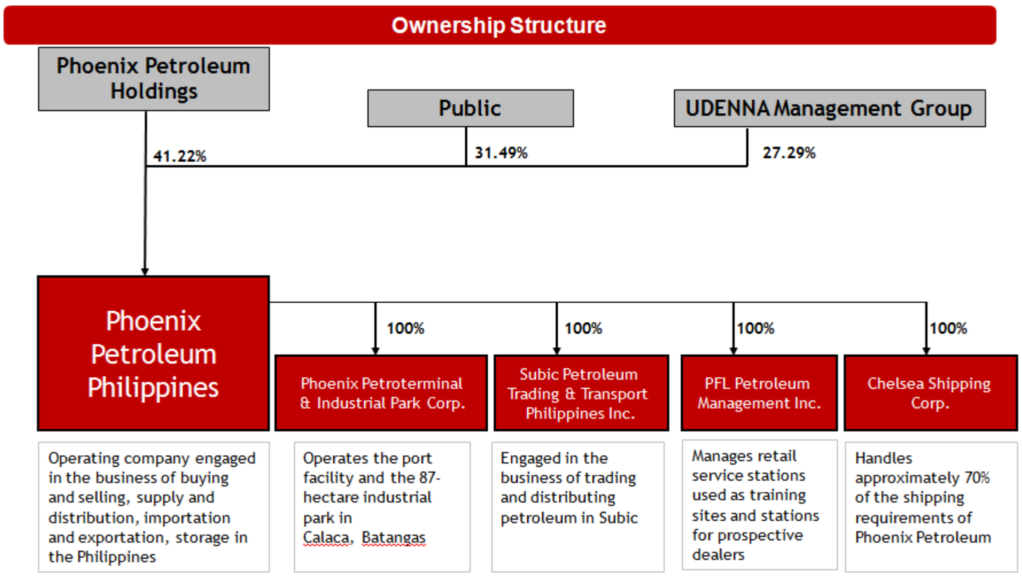
Since the inception of its commercial operations, Phoenix Petroleum managed to increase its market share from zero to 6.5% in 2012 and to around 8.2% in first half 2013 respectively, excluding the LPG and Export sectors. In the first half 2013 Oil Supply/Demand report of DOE, PNX market share is pegged at 7.2% of the total industry. See chart extracted from 1st Half 2013 DOE Supply and Demand report:

Fig. 3 1H 2013 Market Share



Corporate Structure

The Company is a publicly-listed company jointly owned by the Udenna Corporation, Udenna Management & Resources Corp., Phoenix Petroleum Holdings, Inc., and the general public. The chart below sets forth the ownership structure of the common shares of the Company as of the date of this Prospectus



The Company wholly owns the following subsidiaries:

Phoenix Global Mercantile Inc. (PGMI) was incorporated also in July 31, 2006 and is a wholly-owned subsidiary of PPPI. Its primary purpose is to engage in the manufacture, production and creation of all kinds of motor and/or all other transportation lubricants, fluids and additives of all kinds and other
petroleum products purposely for motor vehicles and other transportation.

PFL Petroleum Management Inc. (PPMI) was incorporated in January 31, 2007 and is a wholly-owned subsidiary of PPPI, that as of now has five (5) gasoline stations in operation, one (1) in Lanang, Davao City, two (2) in Panabo City , one (1) in Cebu City and one (1) in Ozamis City. Its primary purpose is to engage in and carry on the business of organizing, managing, administering, running and supervising the operations and marketing of various kinds of services-oriented companies such as petroleum service stations, hauling companies and such other companies desirous of strengthening and establishing their operation processes, except management of funds, securities and portfolio and similar assets of managed utilities.

Phoenix Petroterminals & Industrial Park Corp. (PPIPC) is engaged in real estate development and is a wholly owned subsidiary of PPPI. PPIPC was registered with SEC on March 7, 1996 and with the Housing and Land Use Regulatory Board (HLURB) under Executive Order No. 648 and it was granted a license to sell parcels of land on March 31, 2000 covering 25.4 hectares for Phase 1 of PPIP located at Km. 117, National Highway, Calaca, and Batangas.

Subic Petroleum Trading and Transport Phils., Inc. (SPTT) was registered with the SEC 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. It does not carry any inventory at any given time.

Chelsea Shipping Corporation (CSC) was incorporated in the Philippines on July 07, 2006 and started operations on January 1, 2007. It is engaged in maritime trade through conveying, carrying, loading, transporting, discharging, and storing petroleum products, goods and merchandise of every kind, over waterways in the Philippines and in the Asia-Pacific region.

Key Competitive Strengths

The Company believes that its principal strengths include the following:

- Management strength and expertise;
- Number One (1) Independent Player and Number four (4) in the Philippine Petroleum Industry
- Leading player in the Southern Mindanao region;
- Consistent growth in volume sales;
- Integrated supply chain and logistics infrastructure;
- Over-all presence in the downstream oil industry and other car care products;
- Aggressive expansion plans;
- Strategic terminal location;
- Increasing storage capacities;
- Lean organizational structure; and
- Growing brand equity

COMPETITIVE STRENGTHS

The Company believes that its strengths lie in the following:

- **Brand**. In an industry that has been dominated by strong multinational brands for decades, the Company is engaged in a commensurate effort to develop and popularize the Phoenix brand. Compared to its peers among the emergent players the Company believes it has made greater headway in obtaining better brand recognition. This is centered on cost-effective media placements, participation in trade fairs, selective events sponsorships and well-managed celebrity endorsements.

- **Cost-effective approach**. The Company emphasizes an investment return approach to dealership development that centers on a no-frills right-sizing of investments in retail stations that would result in the fastest payback time at an attractive return on investment. This approach allows the dealer a shorter market launch timetable which allows the Company to generate sales earlier than its competitors. This further instills loyalty among such dealer-business partners who can invest a more affordable amount and obtain quicker returns that is invariably not possible with the major oil players**.**

- **Simple organizational structure**. The relatively flat organizational structure enables faster decision-making and shorter reaction time. The Company adheres to a philosophy of devolving decision-making in most of its operational processes which enables the senior management team to focus more on strategy execution and exploitation of new business and potential growth opportunities.

BUSINESS STRATEGY

The Company will continue to expand in other areas of the Philippines, apart from its stronghold in Mindanao, by building on its existing business model and further aligning its frontline revenue units with the logistics and other support areas of the organization. The Company's strategies shall focus on the following elements:

Brand Strengthening

In an industry that has been dominated by strong multinational brands for decades, the Company is focusing on broadening its brand recognition among consumers and to make its Phoenix products the brand of choice of motorists and commercial users. It continues to build up its brand through major marketing activities such as mass media placements, celebrity endorsements, participation in trade expositions and sponsorship of major sports events. The Company's expenditures for brand equity complement its investments in retail and logistics infrastructure.

Retail Network Expansion

The increase in retail presence in viable trade areas will allow the Company to increase its assured base volume of fuel sales. The retail network expansion will likewise enhance the market for the company's lubricants. A growing base volume for retail fuels will also provide the Company with greater flexibility in transacting fuel importations with regional traders at more advantageous terms. The Company believes it has developed the competencies in network planning and operations necessary for efficiently managing the growth of its retail business.

In this regard the Company is planning for the establishment of about 80 new retail stations throughout the Philippines in 2013. Subsequently the Company hopes to expand its retail network of about 16% per year in 2014 and 2015. Specific suitable locations have already been identified and are now in different stages of negotiations, development or construction. The related expansion and strengthening of its depot, terminaling and distribution facilities will support the implementation of this business plan.

As of December 31 2013, the Company had 368 retail service stations throughout the

Philippines.

In line with the expansion of its retail service network, the Company will continue to develop and strengthen its Retail Network Management Systems in order to support its retail network expansion program in collaboration with dealers and franchisees. These will include the acquisition of a point-of-sales system to make the recording and reporting systems of retail service transactions more efficient.

Expand the Depot, Terminaling and Distribution Facilities

The Company will continue to make strategic investments in storage and transportation to support its retail network expansion program, and the broadening of its commercial customer base. Regional storage facilities will be required where the scale of the prospective retail network growth justifies the investment. Depots pay for themselves in terms of, among other things, savings in freight and handling costs, better aggregation of bulk fuel procurements and faster response time (and incremental profit margin opportunities) to upswings in trade area demand, especially for wholesale and commercial customers.

A major investment by the Company in 2009 was the acquisition of 100% of the shares of Bacnotan Industrial Park Corp. (now renamed to PPIPC), the owner/operator of the Bacnotan Industrial Park (now renamed to PPIP). The Company has installed a 50.4 million liter depot in PPIP, thereby strengthening its ability to service new retail stations in Metro Manila and Southern Tagalog. The Company's expansion program calls for additional storage capacity of 202 million liters in 2011 on top of the 95.6 million liters existing as of December 31, 2010. The additional capacity consists of 52 million liters in Luzon, 12.5 million liters in the Visayas and 43.8 million liters in Mindanao.

Direct Importation of Fuel Supplies

The Company has largely accomplished its strategy of moving from 100% domestic procurement to at least 95% imported procurement, respectively. Aside from diversifying fuel supply sources, importations yield higher gross profit margins due to the multiplicity of price-competitive offshore supply sources. While this strategy entails more complex supply chain management, the Company believes it has significantly moved up along the learning curve and has improved much on its processes since it began direct importations in 3rd quarter of 2009. It believes that the only limitation to fully exploiting the advantages of direct fuel importation is the amount of working capital required to support a faster turnover in the importation cycle.

Strengthen the Jet Fuel Trading & Service Business

The Company will market itself as the logistics partner of choice for the leading domestic airlines. As the exclusive logistics partner of Cebu Air in Mindanao for the last six and one-half years, the Company is poised to expand this business in Luzon and eventually in the Visayas. The Company has built a track record of delivering fast and reliable service and adherence to quality standards. The airline fuels service business is likewise expected to be a growing source of revenues and margins, and an enhancer of the Company's reputation in the commercial fuels market.

Building Financial Strength

Realizing that financial strength is a critical success factor in the fulfillment of its plans, the Company continued to increase its equity capital, from Php194 million in 2006 to Php 2.9 billion in 2011. As of 30 June 2012, shareholder's equity amounted to Php3 billion. The Company will continue to take advantage of the current liquidity in the financial and capital markets to improve its financial condition by lowering its average cost of capital, partially finance its capital expenditure programs and strengthen the working capital required to scale up the operations of its various business lines.

Improving its Information System

The Company is rolling out a "point-of-sale" ("POS") system that will provide the Company with timely, accurate and detailed sales data. Such data will not only provide basic sales volumes and peso values, but other purchasing trends such as peak times, average purchases, number of customer and other pertinent information. The dealer will also benefit from the POS by providing him with a security feature against pilferage by attendants as well as assisting him in managing his own inventory levels aside from monitoring sales.

BUSINESS

The Company is engaged in the business of trading refined petroleum products, lubricants and other chemical products and the operation of petrochemical depots, storage facilities and allied services nationwide Its products are distributed and marketed under the brand name *PHOENIX Fuels Life* TM.

The operation of the Company is divided between trading, and terminaling and hauling services. Under its trading operations, the Company offers its refined petroleum products and lubricants to retail and industrial customers. Terminaling involves the storage of petroleum products, mainly refined gasoline, diesel and other petrochemical products, while hauling involves the transport and provision of fuel to industrial customers.

Trading

Retail Trading

The Company's products are sold through its network of retail service stations numbering 368 as of 31 December 2013. The retail service stations are classified as CODOs or DODOs. In a CODO retail service station, the Company provides the station itself including the site and the equipment (storage tanks, dispensing pumps, pylon, signage, and other equipment necessary to run the retail service station) and supply of petroleum products. The current standard CODO agreements generally have a term of five (5) years renewable for another five (5) years. The term of the DODO agreements vary but are generally for a term of five (5) to ten (10) years. CODO retail stations are normally established in locations where the Company sees the need to construct larger retail stations, based on local market evaluation, but where existing dealers cannot afford the initial outlay for construction.

In a DODO retail service station, the dealer provides the site and builds the required civil structures based on the Company's site selection criteria and station design standards. All necessary equipment and supply of petroleum products are provided by the Company. In both cases, the Company is paid a franchise fee.

The table below shows the growth in the Company's retail service stations from 2006 to December 2013:

PPPI List of Stations

The Company offers a wide range of petroleum products to cater to the needs of all motorists. Listed below are the different *PHOENIX* Products offered by the Company in its retail service stations:

RUNNING TOTAL OF RETAIL STATIONS PER YEAR								
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Mindanao	**20**	**32**	**82**	**99**	**123**	**151**	**191**	**209**
CODO	3	5	22	25	33	42	58	64
DODO	17	27	60	74	90	109	133	139
Visayas	**-**	**-**	**-**	**1**	**5**	**11**	**21**	**47**
CODO	-	-	-	-	3	5	10	22
DODO	-	-	-	1	2	2	11	19
Luzon	**-**	**-**	**4**	**20**	**33**	**58**	**88**	**112**
CODO	-	-	2	6	13	22	40	43
DODO	-	-	2	14	20	36	48	56
Total	**20**	**32**	**86**	**120**	**161**	**220**	**300**	**368**

PPPI List of Fuel Products and Lubricants

Fuels	
Diesel	A low-sulfur product whose carbon content is no more than 2% sulfur
Premium 98	An environment-friendly premium gasoline with an octane rating of 98. Restores lost engine power.
Premium	An environment-friendly premium gasoline with an octane rating of 95.
Regular Gasoline	An environment-friendly gasoline with an octane rating of 91
Kerosene	Kerosene for use in cooking and lighting.
Jet A-1	Aviation fuel specifically described as Jet A: AFQRJOS Issue (ASTM D 1655-06 or EF STD 91-91 Issue 5, amended March 2006) commonly used by commercial airlines and general aviation.

Lubricants	
Phoenix Acceler8 Gasoline Engine Oil SAE 20W-40	A premium quality multigrade engine oil formulated to provide superior lubrication to both gasoline & diesel engines in light-duty service requiring API SG/CF performance standards.
Phoenix XHD Diesel Engine Oil SAE 40	A high performance, single grade, heavy duty diesel engine oil, specially formulated to provide premium quality service in both diesel & gasoline engines requiring API CF/SF performance standards. Formulated with advanced dispersant technology to resist oil thickening by minimizing sludge formation and effectively keeps particles in suspension to extend oil filter life.
Phoenix Cyclomax 4T SAE 20W-	A premium quality 4-stroke engine oil designed to provide excellent engine protection and ensure dependable transmission and clutch protection.
Phoenix 2T MAX	A high quality two-stroke motorcycle oil which exceeds JASO FB specifications, designed for use in tricycles and scooters.

Commercial and Industrial Trading

The Company presently services the fuel requirements of large industrial accounts in different industries throughout the Philippines. These include the air, land and sea transport sectors (Cebu Air, Bachelor Express, Davao Reyer, Lite Shipping), banana and pineapple plantations (Unifrutti Group of Companies, Sumifru Philippines Corp.and Lapanday Group of Companies), mining companies (Adnama Mining, Carrascal Mining, Apex Mining, Platinum Mining), sugar cane milling (Filinvest Farm Group), Power Sector (Davao Light, PSALM, Napocor, Mapalad Power), Manufacturing Sector (Steel Asia) and the construction and property sectors (DMCI, Ayala Land). The products are usually delivered to the area of operations of the client. However, for high-volume accounts, the Company sets-up its own pump station within the clients' area of operations.

Terminaling and Hauling Services

The Company's terminaling and hauling services involve the leasing out of storage space at its terminal depot, hauling of fuels and into-plane services (hauling of Jet A1 fuel to airports and refueling of aircraft) in Davao, Cagayan de Oro, General Santos City, Cotabato City, Ozamis City, Pagadian City and Zamboanga City. Starting in 2005, the Company has been providing all of Cebu Air's terminaling, hauling and into-plane requirements for its Mindanao operations.

The Company's oil depots are located throughout the Philippines. As of December 31, 2012, the Company had a total storage capacity of 226.4 million liters, with an additional 46 million liters scheduled to be completed by 2013. The following table lists the Company's depot / terminal locations and existing and planned capacities:

PPPI depot location, existing and planned capacities

Depots/Terminals	Total 2012	Changes 2013	Total
INSTALLATIONS-IMPORT:			
Calaca, Batangas	80.4	30.0	110.4
Davao City	35.9	8.0	43.9
Cagayan de Oro	37.0		37.0
Subic	33.4		33.4
Sub-total	**186.7**	**38.0**	**224.7**
DEPOT FACILITIES:			
Zamboanga	5.5	8.0	13.5
Cebu	11.7		11.7
Bacolod	9.0		9.0
Aklan	7.5		7.5
Bislig, Surigao	6.0		6.0
Sub-total	**39.7**	**8.0**	**47.7**
Total Capacity	**226.4**	**46.0**	**272.4**

Each of these locations has port facilities to accept sea-going fuel tankers. This allows the Company to directly receive importations into its depots, minimizing the need to transport fuel by land from remote ports to the depots. The port facilities also allow the Company to efficiently transfer fuel in between depots should the need arise.

Franchising

Through dealership agreements, the Company offers for franchising the right to operate a Phoenix gasoline retail station and use of the Company's retail operations and management system. The Company requires new Phoenix gas stations to occupy an area of at least 800 square meters with at least a 30-meter frontage and be located along highways or main thoroughfares. In special cases, the Company may opt to open a station smaller than 800 sqm. depending on the economic sense. As 30 June 2013, the Company had 343 franchisees. The Company aims to grow the number of its dealers to 400 by end 2013 as well as maintain an average growth rate of 16% per annum in the next 2 years.

The main criterion in selecting a retail station site is the viability of the proposed location of the retail service station. This should be in a high-traffic area that can support the minimum volume to keep the dealership operations profitable. While in selecting a dealer, the financial capability, business acumen and character of a prospective dealer are the main criteria in qualifying a dealer. The Company selects its dealers through a Dealership Selection Panel (DSP) composed representatives from various departments in the Company such as Sales, Legal and Finance.

In support of its franchisees, the Company provides the following assistance to the prospective business partner:

Pre-Operations

- Site Evaluation Assistance and Station Lay-Out Assistance
- Pre-opening and start-up assistance

Operations

- Provision of Station Equipment (pumps, tanks and signages)
- The Phoenix Confidential Operations Manual
- Technical Training
- Continuous research and product development
- Continuing visits, guidance and business evaluation support

Marketing

- Use of Phoenix brand, system and design
- Local marketing and promotional assistance
- Sales territory protection

Product Supply & Importation

The Company imports almost 100% of its petroleum requirements from a number of foreign regional sources. Prior to July 2009 the Company substantially sourced its petroleum requirements from PTT, a domestic supplier. Thereafter, the Company started importing its refined petroleum products from neighboring Asian countries such as Taiwan, Singapore, China, Korea and Thailand. The Company believes that the larger number of offshore suppliers allows for much greater pricing flexibility and stability of supply. The Company is not dependent on a single or limited number of suppliers for its supply of products.

Importations are conducted mainly through the issuance of letters of credit, while domestic purchases are conducted through invoices. Products are purchased based on the prevailing domestic wholesale price or on the basis of the average Mean of Platts Singapore plus an agreed premium. To maintain flexibility in supply, the Company does not maintain any long term supply contracts with its major suppliers. Imported products are offloaded directly at the Company's depots, which have port facilities of their own to accommodate fuel tankers.

Product Distribution

The Company's depots and terminals have receiving facilities and multiple product storage tanks for liquid fuels. From its oil depots, products are distributed to the various retail service stations and direct consumer accounts using 51 tanker trucks, with a total capacity of 1,068KL and a variety of smaller delivery vans & pickups for lubricants.

The Company also currently uses four (4) shipping vessels chartered/owned by an acquired affiliate company for the transport of petroleum products from the supplier's terminal to the Company's depot terminals in Davao and Batangas, as well as transshipments to other depots. With this easy access to critical logistical support, potential risks of supply disruptions due to scarcity of sea vessels are minimized.

Marketing

The Company's marketing organization is presently manned with marketing professionals. Retail Territory Managers (RTM) are primarily responsible for prospecting suitable locations and dealers. They also handle business dealings and maintain business relationship with the dealers as well as audit compliance to the company's standards.

On the other hand, Commercial Accounts Managers (CAM) are responsible for developing and maintaining business relationship with all other accounts except for retail station dealers.

Lubes Accounts Managers (LAM) handles high street and lubes distributor accounts for lubricants, chemicals and other car care products.

Retail Engineers attend to the logistical needs of retail service stations while Equipment Maintenance Group services the maintenance needs of the retail service stations and commercial accounts.

Supporting the Company's marketing activities is its integrated logistical facilities - receiving terminal, storage depots, lorries, delivery vans, time-chartered vessels and service stations – allowing it to service all the requirements of its clients in a seamless manner.

Integrated Supply Network

The Company has established and continues to strengthen an integrated supply network that encompasses importations, terminals, storage depots, lorries, delivery vans, time-chartered vessels and retail service stations to service the requirements of its customers in a seamless and cost-effective manner.

The Company's moves to strengthen its supply network include the following:

- **Increasing the proportion of petroleum and petroleum products sourced from imported sources.** The Company now imports more than 98% of its petroleum products, compared to 2008 and prior years, when it sourced majority of its products from domestic sources. It was only September 2009 when the Company started importing refined petroleum products. The Company believes that the larger number of offshore suppliers (as compared to domestic suppliers) allows for much greater pricing flexibility and stability of supply.

- **Expanding both the geographical distribution and capacity of its storage terminals.** The Company has established storage terminals throughout the country in line with the nationwide expansion of its retail network. From a storage capacity of 167.5million liters by the end of 2011, the Company aims to increase its total storage capacity by 64 million liters to 231.4 million liters in 2012. The expansion includes a total of 33 million liters Central Luzon (Subic, Zambales), 9 million liters in Bacolod City, 5.6 million liters in New Washington, Aklan and 6.2 million liter additional tank in Davao City . These new storage facilities will support the Company's planned expansion of its retail stations in these areas.

- **Expanding its retail network.** The Company is targeting to expand its retail network to 400 stations in 2013, from 343 stations as of 30 June 2013.

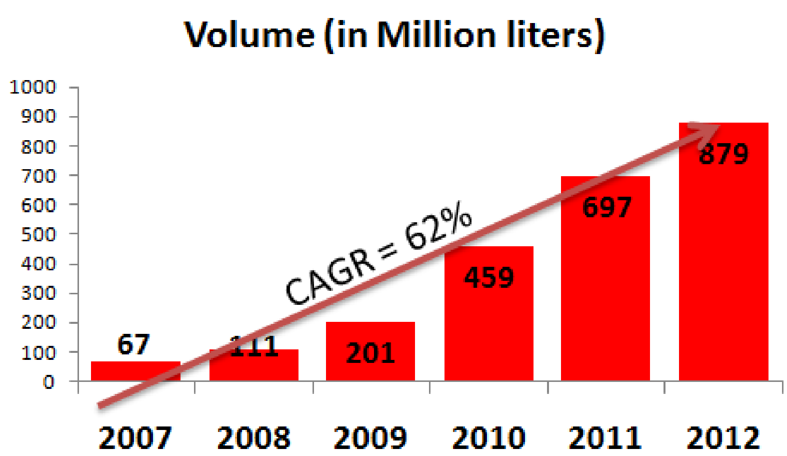
- **Strengthen its hauling operations.** The Company has a fleet of 48 lorry trucks, and refueler trucks and bridging tanks to transport fuel to its retail stations, industrial customers and, in the case of refueler trucks and bridging tanks, for its into-jet operations. The Company will continue to increase its fleet as its customer base grows to ensure timely delivery of its products.

- ***Improve its POS systems.*** The Company is rolling out a 'point-of-sale' ("POS") system that will enable it to record sales on a real-time basis, thereby allowing more efficient management of inventory and deliveries.

- **Affreightment with Affiliate Company under a long term basis*.*** The Company has entered into Contract of Affreightment with an affiliate company, Chelsea Shipping Corp., under a long term basis for its major shipment from foreign suppliers as well as its regional trans-shipments to sub-depots strategically located in various parts of the country. Its close relations to its affiliate assure the Company of the steady and calculated deliveries of inventory not only to its clients but various depots that support the Company's retail and commercial network.

The Company competes with other players in the industry in terms of, quality of service and products, and strategic locations of its service station retail network.

The Company believes that its cost-effective approach of doing business, focus on brand building and its integrated supply network, among other things, enables it to be competitive in its target market. From 2007 to 2012 the Company's sales volume grew by a compounded annual growth rate of approximately 62%.



COMPETITION

The Company's main competitors are the major players in the downstream oil industry namely, Petron, Shell and Caltex, foreign players Total and PTT, and the new industry players such as Unioil, Seaoil and Flying V. While the three major players currently control about 78% of the total Philippine market the primary market of the Company currently is Southern Mindanao where it has since gained a major foothold to be a strong number four.

Please refer to the section "Industry Overview" on page 55 for a discussion on the trends in the Philippine oil industry.

The Company competes with other players in the industry in terms of pricing, quality of service and products, and strategic locations of its service station retail network.

As of December 31, 2013, the Company has a network of 368 retail service stations nationwide of which 207 are in Mindanao, 49 in Visayas and 112 in Luzon.

In terms of market share, the Company estimates that it has obtained about 6.5% and 8.2% of the national market in 2012 and June 2013 respectively. The Company believes that its cost-effective approach of doing business and focusing on brand building, among other things, enables it to be competitive in its target market. From 2007 to 2012 the sales volume of the Company grew by a compounded average annual rate of approximately 62% even as total Philippine oil industry demand remained basically flat.

DEPENDENCE ON DEALERS

Dealership Network

The Company's products are sold through its network of retail service stations numbering 343 as of June 2013, one hundred twenty nine (129) of which are CODOs and two hundred fourteen (214) of which are DODOs. However, the Company is not dependent upon a single or few customers, the loss of any or more or which would have a material adverse effect on its financial condition and results of operations.

Dealership Agreements

For the operation of retail service stations, the Company enters into dealership agreements with its dealers, the pertinent terms of which are as follows:

Term

The current standard dealership agreements are effective for a period of five years, renewable for another five years upon mutual agreement of the Company and the dealer.

Appointment of Dealer

In consideration of the compliance by the dealer with the requirements of the dealership agreement, the Company grants to the dealer the right to operate a retail gasoline station and use the equipment and the Phoenix System developed by the Company.

The Company provides and installs storage tanks, dispensing pumps, pylon signage and other equipment to operate the system which will be its equity, among others, while the dealership agreement is in force.

Training and Assistance

The Company makes familiarization training courses available to the dealer and his/its employees. In addition, for the first ten days of the first month of operation of the dealer's facility, the Company assigns one of its representatives to the facility, at the Company's expense, to assist the dealer in facilitating the opening of the gasoline station. During this period, such representative will also assist the dealer in establishing and standardizing procedures and techniques essential to the operation of the station and shall assist in training personnel.

The dealer may be required to attend refresher or training sessions and dealership meetings with the Company, at such duration and frequency as the Company may determine.

Confidential Operations Manual

During the term of the dealership agreement, the Company loans to the dealer a copy of the Confidential Operations Manual containing reasonable, mandatory and suggested specifications, standards, operating procedures and rules prescribed from time to time by the Company for the operation of the stations and information relative to other obligations of the dealer under the dealership agreement and the operation of its facility.

Advertising and Promotions

All advertising is subject to the Company's approval and the dealer has no right to use any the Company's identification or advertising without the Company's consent.

The dealer commits to fully participate in marketing, sales promotion, advertising and other incentive programs suggested, allowed and initiated by the Company.

Standards of Quality and Performance

The dealer may be required to operate a convenience store on the Facility, subject to the execution of a separate franchise agreement therefore. The dealer shall not be required to pay a franchise fee but will instead be required to pay a royalty fee to the Company for the operation of the convenience store.

The dealer agrees to purchase petroleum products only from the Company and sell only petroleum products from the gasoline retail station. The dealer further agrees that should he purchase petroleum products from any other source, he is liable to pay a fine of P1,000,000 per delivery from unauthorized suppliers.

The gasoline station shall at all times be under the direct, on-premises supervision of the dealer and he shall spend at least four (4) hours daily in the station and, during his absence, be represented by a trained and competent employee acting as supervisor.

Defaults and Termination

The dealership agreement shall, at the option of the Company, terminate automatically upon delivery of notice to the dealer, if the dealer fails to meet company standards on sales, safety, customer service, payments and standard operating, financial and legal requirements as outlined in the dealership agreements and operating manual.

The dealer may pre-terminate the dealership agreement by giving the Company a written notice at least six (6) months prior to the date of pre-termination when the dealer's operation cannot generate profit or incur losses for continuous period of at least six (6) months.

Intellectual Property / Trademarks

The Company uses its registered trademark *PHOENIX Fuels Life* ™ to identify its brand. Branding is a cornerstone of the Company's marketing program. It sells its refined petroleum products like the Magma Diesel, Raptor Premium Gasoline, Glide Unleaded 93-RON, Phoenix Regular Gasoline, Flame Kerosene and Phoenix JET A1. Below are the approved Trademark by the International Property Philippines (IPP) through the Trademark Department.

Product/Device	Reg. No.	Date of Registration	Term/Duration
Phoenix Raptor X Premium & Device	4-2008-005932	Oct. 13, 2008	Oct 13, 2018
Phoenix Regular & Device	4-2008-005931	-do	-do-
Phoenix Flame Kerosene & Device	4-2008-005929	-do-	-do-
Phoenix Glide Super Unleaded & Device	4-2008-005933	-do-	-do-
Phoenix Magma Diesel & Device	4-2008-005936	-do-	-d o-
Phoenix Jet A-1 & Device	4-2008-005934	-do-	-do
Cage Free Ur Spirit & Device	4-2008-012148	Feb. 09, 2009	Feb. 09, 2019
Nest Necessities for Life & Device	4-2008-012149	-do-	-do-

TRANSACTIONS WITH OR DEPENDENCE ON RELATED PARTIES

The Company's related parties include its Parent Company, PPHI, affiliates, stockholders, and key management personnel. Transactions with said related parties are as follows:

Purchases of Services

The Company has an operating lease agreement with its parent Udenna Corporation for the use of various properties for its operations and for office space. Furthermore, the Company regularly charters the use of marine tankers from its affiliate, Chelsea Shipping Corporation, for the hauling of its fuel products from suppliers' terminals and from its own depots to Company depots and to its customers. The Company also avails of the freight forwarding services of another affiliate, F2 Logistics, Inc. for the deliveries of goods to customers and for internal movement of non-commercial cargo. These contracted services are made on reasonable arms-length terms as would be obtainable from third party providers.

Due to and Due from Related Parties

The Company from time to time grants and obtains advances to and from the Parent Company and its other associated companies. The advances are interest bearing and repayable within twelve months.

As of December 31, 2011, total net advances to the Company's Parent Company amounted to ₽9.5 million.

Total number of employees

The Company has a total of 521 as of December 31, 2013 from 449 employees in December 31, 2011 and December 31, 2012. This is broken down as follows:

	2013	2012
Chairman	1	1
President/CEO	1	1
Vice President	5	3
Assistant Vice President	8	8
Senior Manager	8	8
Managers	17	28
Supervisor/PTC*	159	146
Rank and File	294	254
	521	**449**

* *Professional, Technical and Confidential*

There are no labor unions in the Company and its subsidiaries nor are there any labor cases filed against the Company and its subsidiaries that may materially and adversely affect the Company's result in financial or operational position.

Aside from the statutory benefits, the Company grants group term life insurance and hospitalization benefits fully paid by the Company. It also provides free uniforms, free meals, and vacation, sick, emergency leaves and recently Employee Stock Option Plan (ESOP) to all its regular employees based on annual performance evaluation. However, the ESOP has yet to be implemented and granted to its employees.

Key Management Personnel Compensation

Included in related party transactions are compensation payable by the Company to its key management personnel consisting of salaries and wages, honoraria and allowances, and 13th month pay and bonuses amounting to Php 38 million for the year ending December 31, 2011.

Insurance

The Company's comprehensive insurance policies cover its terminal, depot facilities, head office building, pier and pipeline structure and its accessories, steel cylindrical tanks, and stocks of all petroleum products stored and contained inside the depot against any incidents of fire/lighting, typhoon, floods with extended coverage to include loss or damage directly caused by explosion, aircraft, vehicle and smoke.

All the trucks and tankers owned by the Company are covered with third party liability and comprehensive insurance. The products carried by these heavy equipments are covered with in-land cargo insurance. The Company believes that its insurable assets are adequately covered.

REGULATORY FRAMEWORK

Downstream Oil Industry Deregulation Act

The Company is required to obtain from the OIMB of the DOE a Certificate of Compliance with the requirements prior to engaging in the business of selling liquid petroleum products. These requirements include, among others, prior notice of the Company's intention to engage in the business of selling liquid petroleum products and submission of documentary requirements before commencement of construction and operation, such as the following:

- Fire Inspection Certificate issued by the BFP pursuant to Presidential Decree No. 1185 or The Fire Code of the Philippines; and

- ECC or Certificate of Non-Coverage issued by the DENR Environmental Management Bureau pursuant to Presidential Decree No. 1586 (Establishing an Impact Assessment System).

The Downstream Oil Industry Deregulation Act also requires all petroleum product transport containers of the Corporation to be registered with the Industrial Technology Development Institute of the Department of Science and Technology.

In addition to the foregoing, the Company is required to obtain a permit or clearance from the DENR prior to any importation of slop/used/waste oils, sludge and similar petroleum products pursuant to Republic Act No. 6969 or The Toxic Substances, Hazardous and Nuclear Wastes Control Act of 1990.

The Company believes that its facilities and operations comply in all material respects with the requirements of the Downstream Oil Industry Deregulation Act.

In respect of the operation of retail gasoline stations, the Company's dealership agreement with its dealers provide that the dealers shall be responsible for securing all the necessary permits from the BFP, DENR and OIMB as required under the Downstream Oil Industry Deregulation Act, and such other permits and licenses required by the local government unit and/or the national government.

Environmental Compliance

The Company's operations are subject to evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations address, among other things, air emissions, wastewater discharges, generation, handling, storage, transportation, treatment and disposal of oil products, workplace conditions and employee exposure to hazardous substances.

Among the permits applicable to the Company are the Environmental Compliance Certificate, Water Discharge Permit, Environmental Compliance Certificate, and the Permit to Operate a standby generator from the DENR.

Phoenix retail service stations are required to secure an Environmental Compliance Certificate prior to their start of operations.

The Company believes that its facilities comply in all material respects with all applicable safety, health and environmental laws and regulations.

The cost of complying with environmental regulations is mainly made up of the equipment and facilities required to be put up in each of the service stations. The estimated average cost of complying with environmental regulations is Php 50,000 per service station.

The Company is considering diversifying into the production of alternative fuels as one of the ways to comply with the recently enacted law on the mandatory blending of biofuels in gasoline and diesel. The other alternative is for the Company to purchase gasoline and diesel that are already blended with the required level of biofuels.

In respect of the operation of retail gasoline stations, the Company's dealership agreement with its dealers provide that the dealers shall be responsible for securing all the necessary permits from the BFP, DENR and OIMB as required under the Downstream Oil Industry Deregulation Act, and such other permits and licenses required by the local government unit and/or the national government.

Effect of Existing or Probable Government Regulations on the Company's Business

Oil industry players are required to comply with the laws discussed above, and to follow strictly the guidelines of the DENR. There can be no assurance that current laws and regulations applicable to the Company will not increase the costs of operating its facilities above currently projected levels or require future capital expenditures. Although the Company endeavors to maintain compliance with applicable laws and regulations, the introduction or inconsistent application of, or changes in, laws and regulations applicable to the Company's business could have a material adverse effect on its business, financial condition and results of operations.

PLANS AND PROSPECTS

Strengthen Oil Supply Security

The Company intends eventually to form strategic partnerships with foreign refined petroleum products producers and traders, and domestic wholesalers.

Expand the Petroleum Depot, Terminaling and Distribution Facilities

The Company plans to establish additional petroleum depot, terminaling and distribution facilities in other strategic locations in key areas of Luzon, Visayas and Mindanao regions to support its expanded market presence both in wholesale distribution as well as its retail network development. Specific suitable locations have already been identified and negotiations for some are in their final stages, and more sites are under consideration.

Expand Retail Service Station Network

In 2010 the Company plans to increase the current number of retail service stations from 120 to 162, and on the average, increase the rate of expansion by approximately 35% per year from 2011 to 2013. Specific suitable locations have already been identified and are now in different stages of negotiations, development or construction. The related expansion and strengthening of its depot, terminaling and distribution facilities will support the implementation of this business plan.

Expand Wholesale and Trading Operations

Encouraged by its initial successes in Mindanao, the Company has been expanding its wholesale petroleum distribution and trading activities in Luzon as well in other areas in the Visayan region.

Strengthen Retail Management Systems & Operations

The Company shall continue to develop and strengthen its existing Retail Network Management Systems in order to support its retail network expansion program in collaboration with its dealers and franchisees. This will include the acquisition of a point-of-sales system to make more efficient the recording and reporting system of retail service station transactions.

Developing the Brand: A Marketing Cornerstone

Branding will continue to be a cornerstone of the Company's marketing campaign to make its brand *"PhoenixFuelsLife"* as the brand of choice of motorists and commercial users.

Expand Product Offerings and Distribution Channels

As part of the Company's thrust to strengthen the brand, more products led by its "*PhoenixFuelsLife*" lubricants line will be launched. These product offerings, covering the vehicles' needs (except spare parts) as well as driving-related requirements, will be made available in selected Phoenix stations but also through other traditional distribution channels of these products.

Diversify into Alternative Fuels

The Company is seriously considering entry into the production of alternative fuels. Feasibility studies, with strong emphasis on the technical aspects, are currently on the final stages.

Establish Production Facilities

In its effort to be more cost effective and competitive with other brands, the Company plans to establish its own full-scale lubricants blending facility.

2. DESCRIPTION OF PROPERTY

The Company's properties consist mainly of its terminal, depot facilities, head office building, pier and pipeline structure and its accessories, steel cylindrical tanks, and stocks of all petroleum products stored and contained inside the depot. Certain of these properties are free and clear of liens, encumbrances and other charges, and are not subject of any mortgage or other security arrangement.

Leased Properties

The Company's headquarters, where substantially all of its operations are conducted, are currently located at Stella Hizon Reyes Road, Bo. Pampanga, Davao City. The premises are covered by existing lease contracts with Udenna Corporation and the Heirs of Stella Hizon Reyes, as lessors.

Following are the relevant terms of the lease contracts:

- The lease contract with Udenna Corporation shall be for a term of twenty five (25) years commencing on August 2002, subject to renewal upon terms and conditions to be agreed to by the parties; while the lease contract with the Heirs of Stella Hizon Reyes shall be effective for twenty one years, commencing on March 20, 2002, subject to renewal upon terms and conditions to be agreed to by the parties.

- The Company shall pay Udenna Corporation a monthly rental at the rate of Php 12.00 per square meter, or a total of Php 132,000 per month, plus 10% value-added tax and 5% withholding tax. The rate shall be subject to a 10% increase every succeeding year commencing on August 2005. For the property leased from the Heirs of Stella Hizon Reyes, the Company shall pay a monthly rental at the rate of ₱10.00 per square meter for the first two years of the contract and shall be increased at a rate of 10% after every two years until the termination of the contract.

- The leased premises shall be used exclusively by the Company for its storage of petroleum and fuel products and for its pier facilities or any other related business. The Company is prohibited from using the leased premises for any other purpose without the prior written consent of lessors.

- The Company may not introduce improvements or make alterations or changes without the written consent of Udenna Corporation, except the construction of the necessary offices, storage tanks and other improvements required by the business of the Company.

- UHC shall have the right to pre-terminate the Sublease on any of the following grounds: (a) non-payment of rentals for at least two (2) consecutive months; (b) if the Company, at any time, fails or neglects to perform or comply with any of the covenants, conditions, agreements, or restrictions stipulated in the lease contract; or (c) if the Company shall become insolvent. Udenna Corporation shall give the Corporation one (1) month notice prior to the intended date of termination. The Company may pre-terminate the lease, upon prior thirty-day written notice to Udenna Corporation.

Lease of Properties where CODOs are Located

In addition to the lease covering the premises where the Company's headquarters is located, the Company has existing lease contracts with various property owners covering the properties where its CODOs are situated. Relevant terms of said lease contracts are as typically as follows:

- The lease shall be for a term of fifteen years, subject to renewal upon such terms and conditions as may be agreed upon in writing and signed by the parties.

- The Company shall pay monthly rentals plus applicable real estate and government taxes and such rent is subject to yearly escalation of 5% to 10%.

- The leased premises may be occupied and used by the Company exclusively as a gasoline service station. It will include convenience stores, coffee shops, service bays and other facilities as might be deemed appropriate for a gasoline service station and for no other purpose without the written consent of the lessors.

- The Company is permitted to assign or sublet the leased premises upon the written approval of the lessors, provided that it is leased to a single party to operate a gas service station, convenience store and other retail outlets as a whole.

Future Acquisitions

The Company intends to establish Terminal Operations in other locations, expand its dealership network and its services as well as the necessary logistical requirements to support these activities. For this purpose, the Company intends to improve its gasoline stations and acquire equipment and other depot and logistic facilities, which improvements and acquisition shall be sourced from the proceeds of the Offer.

Generally, the Company conducts competitive bids to determine where to source its equipment and facilities. The main considerations are the cost, compatibility with the existing equipment and facilities, and whether they meet the Company's specifications.

3. LEGAL PROCEEDINGS

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

On 05 May 2011, the Bureau of Customs (BOC) filed before the Department of Justice (DOJ) a complaint against the Company's President and Chief Executive Officer Dennis A. Uy and other respondents for alleged violation of Sections 3602, 2501(l)(1) & (5), 1801, 1802 and 3604 of the Tariff and Customs Code of the Philippines. On 16 November 2012, the DOJ dismissed the case for lack of probable cause against all the respondents. Upon motion for reconsideration, the DOJ, however, on April 24, 2013 recommended the filing of criminal Information against Dennis Uy and all of respondents. On August 27, 2013, DOJ filed 3 criminal information against Mr. Uy with RTC Batangas and 12 criminal Informations with RTC Davao City.

On September 17, 2013, RTC Batangas dismissed the 3 Criminal Informations against Mr. Uy and on December 6, 2013, RTC Batangas likewise denied the Motion for Reconsideration filed by the BOC. In the meantime, on October 4, 2013, RTC Davao dismissed all 12 charges against Mr. Uy.

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

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

(ii) Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(iii) Any final and executory order, judgment, or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and

(iv) Any final and executory judgment by a domestic or foreign court of competent jurisdiction (in a civil action), the Securities and Exchange Commission ("SEC"), or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

4. Market Information and Dividends on Registrant's preferred equity shares and Related Stockholders Matters

The Offer pertains to the Preferred equity securities of the Company which are not traded and have yet to be listed with the Philippine Stock Exchange.

Holders

The Shareholders of the Preferred securities of the Company as of December 31, 2014 are as follows:

NAME OF SUBSCRIBERS AFTER	No of Shares Subscribed	Amount of Shares Subscribed		Amount of Paid Up	
PentaCapital Investment Corp	3,000,000	Php	300,000,000.00	Php	300,000,000.00
BDO Private Bank Inc . – Wealth and Advisory Trust Group	1,400,000		140,000,000.00		140,000,000.00
Pioneer Life Inc.	280,000		28,000,000.00		28,000,000.00
Prandial Corporation	200,000		20,000,000.00		20,000,000.00
Easter Foundation, Inc.	20,000		2,000,000.00		2,000,000.00
RCBC Trust and Investments Division	100,000		10,000,000.00		10,000,000.00
P-h-o-e-n-i-x Petroleum Philippines, Inc. (Treasury shares)	5,000,000		500,000,000.00		500,000,000.00
Grand Total	**10,000,000**	**Php**	**1,000,000,000.00**	**Php**	**1,000,000,000.00**

Dividends

Since issuance of the Preferred shares of the Company in September 21, 2010 (the first tranche), the Company has declared quarterly dividends fixed at 11.50% per annum paid on September 21, December 21, March 21 and June 21 of each year starting December 21, 2010 until the same was redeemed on December 21, 2013, calculated in respect of each share with reference to the Issue Price thereof on each dividend period.

The dividends on the first tranche was calculated on a 30/360 day basis and had priority in the payment of dividends at the fixed rate of 11.50% per annum at the time of issuance and in the distribution of corporate assets in the event of liquidation and dissolution of the Company.

Unregistered or Exempt Securities

Below are the exempt securities issued by the Company:

Securities Sold	Date	Resolution No.	Description of Transaction	No. of Shares	Amount (PhP)
Preferred Shares	March 19, 2014	DS-669	Shares issued in relation to the issuance of preferred shares for purposes of redeeming the first tranche of preferred shares (the Offer)	5,000,000	500,000,000.00
Common Shares	June 05, 2013	DS-643	Shares issued pursuant to the 30% stock dividends for 2013	329,717,816	329,717,816.00
Common Shares	April 02, 2013	DS-637	Shares issued pursuant to the 30% stock dividends for 2012	437,936,202	437,936,202.00
Common Shares	October 10, 2012	DS-607, series of 2012	Shares issued in relation to the acquisition of Chelsea Shipping Corp. via share-for-share swap	171,250,799	171,250,799.00

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following management's discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's audited financial statements, including the related notes, contained in this Prospectus. This Prospectus contains forward-looking statements that are based largely on the Company's current expectations and projections about future events and trends affecting its business and operations. The Company cautions investors that its business and financial performance is subject to substantive risks and uncertainties. The Company's actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set out in "Risk Factors." In evaluating the Company's business, investors should carefully consider all of the information contained in "Risk Factors."

The selected financial information set forth in the following table has been derived from the Company's audited consolidated financial statements for the years ended December 31, 2013, 2012 and 2011.

The Company's financial statements were audited by Punongbayan & Araullo for 2013, 2012 and 2011, in accordance with Philippine Financial Reporting Standards.

	As of and for the years ended December 31		
In ₱ thousands, except for Per Share amounts	**2011**	**2012**	**2013**
Income Statement Data:			
Revenues……………………………………….	27,450,978	34,585,552	43,551,986
Cost of sales…………………………………..	25,327,617	31,961,749	40,248,166
Net profit……………………………………….	557,712	651,310	665,058
Balance Sheet Data:			
Current Assets…………………………………..	6,901,769	8,967,002	13,068,514
Non-current Assets……………………………..	6,056,887	7,540,188	9,283,414
Total Assets …………………………………….	12,958,656	16,507,190	22,351,928
Total Liabilities…………………………………..	9,244,259	12,010,644	15,839,648
Stockholders' Equity…………………………….	3,714,398	4,496,546	6,512,280
Earnings per Share-Adjusted………………..	0.40	0.48	0.45
Book Value per Share…………………………..	5.61	4.96	4.55

Analysis of Results of Operations for 2013 and 2012

Revenues

The Group generated total revenues of Php 43.552 billion in 2013 which is 26% higher than its 2012 level of Php 34.586 billion, primarily due to the 31% increase in sales volume of refined petroleum products. However, this was minimized due to the lower revenues from fuels service, rent, storage and other revenue. Substantial volume for these aforementioned services were converted to an All-in product sale to customer starting third quarter of 2012 which full year impact is 2013.

Sales revenues from trading and distribution of petroleum products increased by 27% from Php 34.080 billion in 2012 to Php 43.132 billion in 2013 resulting principally from a wider distribution network and expanded institutional customer base and also as a result of improved price competitiveness. In spite of the 31% increase in volume, revenue is only up by 27%, as a result of a lower average selling price for the current as a MOPS for 2013 for Gasoil (benchmark for Diesel) and Mogas92 (benchmark for Gasoline) is lower by 2.26% and 3.50% respectively compared to year 2012. The Company had three hundred sixty-eight (368) Phoenix Fuels Life retail service stations as of December 31, 2013 compared to three hundred (300) retail stations end December 2012. The Company has a number of retail stations undergoing construction and are projected to be opened in 2014.

The Group generated Php207.059 million from its fuels service, storage, port and other income in 2013 versus Php303.567 million in 2012, a 32% decline compared to 2012. This was caused by the conversion of service revenue for Mindanao, except Davao City, to an all-in-sales of Jet A1 arrangement instead of mere service which in turn contributed to the volume and revenue growth of the Company.

Cost and expenses

The Group recorded cost of sales and services of Php40.246 billion, an increase of 26% from its 2012 level of Php31.962 billion primary due to a 31% increase in the sales volume of petroleum products. However, the average unit cost this year was lower compared to prior year as a result of lower petroleum product prices more specifically during the second quarter of 2013.

Selling and administrative expenses increased by 35% as a result of higher volume and the continuous expansion of the Group's business operations. With its growing retail presence nationwide and the scaling-up of operations, the Company incurred increases in manpower, and logistics costs including depreciation of additional new stations and facilities.

Net Income and Comprehensive Income

The Group's net income for 2013 is Php665.058 million versus 2012 same period net income of Php651.310 million or a 2.11% increase. The Company managed its profitability in spite of the price volatility due to improved inventory, trading and supply management.

Total Comprehensive Income is lower in 2013 by 24% from ₱ 874 million in 2012 to ₱ 661 million in 2013 as accounted by the effect of the recorded revaluation of vessel tankers in year 2012.

Analysis of Financial Condition and Balance Sheet Accounts
(As of December 31, 2013 versus December 31, 2012)

Total resources of the Group as of December 31, 2013 stood at Php22.352 billion, a growth of 35% over the Php16.507 billion as of December 31, 2012.

Cash and cash equivalents decreased by 19% from Php438 million in December 31, 2012 to Php357 million due to timing of collections of receivables as against payment various liabilities and prudent management of cash level enough to cover maturing liabilities.

The Group's liquidity position continued to be strong with Current Assets amounting to Php13.069 billion as of December 31, 2013, up from PHp8.967 billion as of December 31, 2012.

Trade and other receivables increased by 106%, from Php3.557 billion as of December 31, 2012 to Php7.344 billion as of December 31, 2013, which were mainly due to increase in trade receivable as a result of increasing sales revenue. Bulk sales to government and airline was also consummated at year end of 2013 which forms big bulk of the trade receivable. The Group continues to enhance its credit policies to minimize overdue accounts.

Inventories increased by only 3%, from Php3.689 billion as of December 31, 2012 to Php3.813 billion as of December 31, 2013. The Company maintains an average of around one month worth of inventory to ensure stable supply in retail stations and commercial/industrial clients.

Due from related parties in December 31, 2013 and December 31, 2012 is Php2.748 million and Php8.300 million respectively. The decrease of Php5.552 million is due to collection of prior period charges to related parties.

Input taxes-net increased by 14% in December 31, 2013 is the result of slight increase in inventory which input taxes is paid and the input taxes on additional capital expenditures during the year.

Other current assets are at Php504.3 million and Php296.7 million as of December 31, 2013 and December 31, 2012 respectively. The increase represents, creditable withholding taxes, supplies inventory, prepaid rentals on leased retail service stations properties and depot sites, prepaid insurance and other current assets.

As of December 31, 2013, the Group's property and equipment, net of accumulated depreciation, increased to Php8.629 billion compared to Php6.999 billion as of December 31, 2012 due to investments in additional depot capacity in existing areas and new sites. For the year, the Company completed its Depot facility expansion in Davao City and additional storage tanks in Calaca, Batangas and Zamboanga City. New depot sites are also being developed in various sites. In addition, more retail stations were also constructed and or under construction in Luzon, Mindanao and Visayas as of end 2013.

Other non-current assets increased by 61% from Php 167.8 million in 2012 to Php 270.4 million December 31, 2013 as a result of additional rental and security deposits of various lease agreements.

Loans and Borrowings increased by 39% from Php9.915 billion as of December 31, 2012 to Php13.752 billion as of December 31, 2013. The increase was a product of short term financing (LC/TR) to cover inventory purchases and trade receivables.

Trade and other payables decreased by 2%, from Php1.547 billion as of December 31, 2012 to Php1.570 billion as of December 31, 2013. This slight increase in spite of increasing sales volume is the result of the of trade payables to cover inventory where more booked to short term financing with banks (LC/TR).

Total Stockholders' Equity increased to Php6.512 billion as of December 31, 2013 from Php4.497 billion as of December 31, 2012 as a result of the Php1.188 billion equity placements plus the income earned during the period less the cash dividend to preferred shares of Php43.125 million and to common shares of Php103.606 million declared during the first semester.

Analysis of Results of Operations for 2012 and 2011

Revenues

The Group generated total revenues of ₽ 34.586 billion in 2012 which is 26% higher than its comparative 2011 level of ₽ 27.451 billion. This was brought about by the 26% and 8.3% increase in sales volume of petroleum products and lubricants, respectively. Service revenue also posted an increase of 34% compared to immediately preceding year. There is no real estate sales recorded this year by the Group compared to a realized ₽354 million real estate sales in its PPIPC industrial park in Calaca, Batangas in 2011.

Sales revenues from trading and distribution of petroleum products and lubricants increased by 22% from ₽ 26.720 billion in 2011 to ₽ 34.080 billion in 2012 resulting principally from a wider distribution network and expanded institutional customer base. The 26% increase in sales volume accounts the increase in revenue. Average Means of Platts Singapore (MOPS), the benchmark for pricing of petroleum in the Philippines, increased by 1.23% for Gasoil (benchmark for Diesel) and 2.41% for MOGAS92 (benchmark for Gasoline).

PPPI had three hundred (300) Phoenix Fuels Life retail service stations as of December 31, 2012 compared to two hundred twenty (220) as of December 31, 2011. A number of these service stations are yet to fully realize their potential peak sales volume considering that they have been in operation for only less than a year.

The Group generated ₽505 million from its fuels service (i.e. shipping, hauling and into-plane), lease of its storage facilities, Port Revenue and other service revenue in 2012 versus ₽ 377 million in 2011, or a 34% increase compared to last year. Ship Charter revenue accounts for the biggest increase at ₽ 68 million or 51% percent increase compared to prior year. Storage and Service Revenue also increased by 49% and 23% respectively.

Cost and expenses

The Group recorded this year's cost of sales at ₽31.962 billion, an increase of 26% compared to the 2011 figure of ₽ 25.328 billion. The increase was triggered by the 26% increase in volume.

Weighted average cost per liter this year is at the same level as that of last year. The slight increase in product costs in 2012 was balanced by the sales mix.

The 18% increase in selling and administrative expenses is a result of the increasing volume and the ongoing expansion and growth of the Group's organizational build-out and business operations. The Major items that increased as a result of this retail network expansion and increasing volume include rental, depreciation, travel and transportation, repairs, taxes and licenses and other expenses. PPPI is also continuously doing branding and promotional campaign to improve on brand awareness in the market, which resulted to higher advertising expenses.

Net Profit and Comprehensive Income

The Group's total net profit increased by 17% to ₱ 651 million during year 2012 compared to P 558 million for 2011. This is a result of the Group's growth on volume on all of its business segments and the integration of the net income of the newly acquired subsidiary, Chelsea Shipping.

Total Comprehensive Income increased 69% from ₱ 518 million in 2011 to ₱ 874 million in 2012 as accounted by the increase in net income and the effect of the revaluation of vessel tankers.

Analysis of Financial Condition and Balance Sheet Accounts
(As of December 31, 2012 versus December 31, 2011)

Total resources of the Group as of December 31, 2012 stood at ₱ 16.507 billion, an increase of 27% over the P 12.959 billion as of December 31, 2011.

Cash and cash equivalents decreased by 53% from ₱ 924 million to ₱ 439 million as part of the Group cash management to retain cash level for current operational requirements and bank accounts average daily balance.

The Group's liquidity position continued to hold strong with Current Assets reaching ₱ 8.967 billion as of December 31, 2012, up from ₱ 6.902 billion as of December 31, 2011.

Trade and other receivables increased by 24%, from ₱2.865 billion as of December 31, 2011 compared to ₱ 3.557 billion as of December 31, 2012 as a result of the increase in sales revenue in 2012 compared to the preceding year. The Company continues to exercise prudence in its credit policies in order to manage customer receivables risk. The receivable is spread over a number of industries and a number of clients.

Inventories increased by 73%, from ₱ 3.689 billion as of December 31, 2011 to ₱2.133 million as of December 31, 2012 as part of the Company's inventory management strategy. The Company maintains more or less one month of inventory to ensure stable supply in retail stations and commercial/industrial clients. In addition, in this period of rising fuel prices, it is necessary to build commensurate levels of inventory to improve potential margins.

Lands Held for Sale are parcels of subdivided lots owned by PPIPC, a wholly owned subsidiary of the PPPI. These lots are intended for sale to prospective buyers. The increase in 2012 from the 2011 value is for the development of the Park that was introduced this year. There are ongoing active negotiations with prospective buyers on some parcels of these lots.

Due from related parties net balance payable is ₽ 77.3 million as of December 31, 2012 compared to a payable balance of ₽ 10.8 million in 2011. The Company's parent holding company and related party extended advances to support its cash requirement for its capital expenditures on a temporary basis to bridge immediate cash flow requirements.

Restricted deposits increased by 20% from ₽ 69 million in December 31, 2011 to ₽ 82.7 million in December 31, 2011 due sinking set-up for dividend plus interest income to these deposits.

Input-VAT-net increased by 73% from ₽ 226.5 million in December 31, 2011 to ₽393 million in December 31, 2012. These are accumulation of input VAT, current and deferred as a result of the continuous capital expenditures of the Group and the increase in inventory equivalent input taxes.

Other current assets increased by 44% from ₽ 206.2 million in December 31, 2011 to ₽ 296 million in December 31, 2012. These are prepayments on taxes, rentals on retail service stations and depot sites, creditable withholding tax and other various prepayments.

As of December 31, 2012, the Group's property and equipment, net of accumulated depreciation, increased to ₽ 6.999 billion compared to ₽ 5.572 billion as of December 31, 2011 as a result of the Company's continuous expansion of retail service stations, Storage Facilities, additional ship, capitalized dry-docking costs and other minor capital expenditures.

Lands held for future developments are parcel of subdivided lot owned by the wholly owned subsidiary PPIPC. The balance is increased by 6% as a due to minor development introduced in the property. These lots may be sold at its current state or be developed for better selling prices which will yield better returns to the Group.

Total Loans and Borrowings increased by 69% from total ₽ 5.877 billion as of December 31, 2011 to ₽ 9.915 billion as of December 31, 2012. This is due to the financing for vessel double hulling, purchase of brand new vessel. The total loan amount is ₽ 214 million and US$ 14.5 million for the double hulling and purchase of brand new vessel respectively. In addition, the Parent Company availed of long term debts to refinance short term debts. Short term loans and borrowings are related to the financing of the inventory build-up and accounts receivable trade gapping.

Trade and other payables decreased by 50%, from ₽ 3.084 billion as of December 31, 2011 to ₽1.547 billion as of December 31, 2012 as trade payables at the end of the year are mostly booked under trust receipts. The increase in Other Payable was mostly payables to contractors and suppliers for construction of depots and retail stations.

Other non-current liabilities increased by 65% in December 31, 2012. Most of this is accumulation of Cash Bond placed by dealers and customer to secure their credit purchases.

Total Stockholders' Equity increased to ₽ 4.496 billion as of December 31, 2012 from ₽ 3.714 billion as of December 31, 2011 due to the issuance net income posted during the year. Increase Revaluation Reserve to ₽ 294 million contributed to the increase. This however was reduced by the effect of the ₱ 92 million cash dividend declared and distributed during the year to both common and preferred shareholders.

Analysis of Results of Operations for 2011 and 2010

Revenues

The Group generated total revenues of ₱ 27.451 billion in 2011 which is 84% higher than its comparative 2010 level of ₱ 14.930 billion. This was brought about by the 52% and 8.5% increase in sales volume of petroleum products and lubricants, respectively. Service revenue posted a slight decline by 2% as a result of lower chartering revenue decline volume from 3rd party with the increasing need of shipping within the Group. The group also realized ₱354 million real estate sales in its PPIPC industrial park in Calaca, Batangas.

Sales revenues from trading and distribution of petroleum products increased by 85% from ₱ 14.341 billion in 2010 to ₱ 26.508 billion in 2011 resulting principally from a wider distribution network and expanded institutional customer base. The 52% increase in sales volume is complemented by the increase in weighted average selling price by 22%, from ₱ 31.26 per liter in 2010 to ₱ 38.01 per liter in 2011.

PPPI had two hundred twenty (220) Phoenix Fuels Life retail service stations as of December 31, 2011 compared to one hundred sixty one (161) retail stations as of the December 31, 2010. The recently opened retail service stations have yet to fully realize their potential peak sales volume considering that they have been in operation only for less than a year.

The Group generated ₱377 million from its fuels service (i.e. shipping, hauling and into-plane), lease of its storage facilities, Port Revenue and other service revenue in 2011 versus ₱ 385 million in 2010, or a 2% decrease compared to last year. It includes revenue from port operation of ₱ 58 million and ₱ 45 million for 2011 and 2010 respectively on PPIPC, the 2009 acquired wholly-owned subsidiary.

Cost and expenses

The Group recorded this year cost of sales of ₱25.328 billion, an increase of 91% compared to the 2010 figure of ₱ 13.245 billion. The increase was triggered by the 52% increase in volume plus the higher average cost by 24.5%. Year 2011 average fuel cost is 35.94 per liter compared to 28.87 in 2010 driven by higher average crude prices and product sales mix factor.

Selling and administrative expenses increased by 41% as a result of the increasing volume and the ongoing expansion and growth of the Group’s organizational build-out and business operations. Major items that increased out of this retail network expansion and increasing volume are rental, depreciation, travel and transportation, repairs, taxes and licenses and other expenses. The Parent Company is also continuously doing branding and promotional campaign which resulted to higher advertising expenses to improve on brand awareness in the market.

Net Profit and Total Income

The Group's total net profit increased by 35% to ₱ 555 million during year 2011 compared to P 413 million for 2010. This is a result of the Group's growth on volume on all of its business segments.

Analysis of Financial Condition and Balance Sheet Accounts
(As of December 31, 2011 versus December 31, 2010)

Total resources of the Group as of December 31, 2011 stood at ₱ 12.959 billion, an increase of 40% over the P 9.276 billion as of December 31, 2010.

Cash and cash equivalents increased by 50% from ₱615 million to ₱924 million due to higher revenue level during the current year and the need to retain cash on that level due to operational requirements.

The Group's liquidity position continued to hold strong with Current Assets reaching ₱ 6.902 billion as of December 31, 2011, up from ₱ 4.882 billion as of December 31, 2010.

Trade and other receivables increased by 12%, from ₱2.556 billion as of December 31, 2010 to ₱2.865 billion as of December 31, 2011 as a result of the increase in sales revenue in 2011 compared to the preceding year. The Company continues to exercise prudence in its credit policies in order to manage customer receivables risk. The receivable is spread over a number of industries and a number of clients.

Inventories increased by 103%, from ₱ 1.052 billion as of December 31, 2010 to ₱2.133 million as of December 31, 2011 as part of the Company's inventory management strategy. The Company maintains more or less one month of inventory to ensure stable supply in retail stations and commercial/industrial clients. Both the comparative year are in the level of around twenty two (22) days inventory as of December 31 cut-off. Prices also a factor of the inventory costs increase this year. In addition, in a period of rising fuel prices, it would be necessary to build commensurate levels of inventory to improve potential margins.

Land Held for Sale are parcels of subdivided lots owned by PPIPC, a wholly owned subsidiary of the PPPI. These lots are intended for sale to prospective buyers. The level is the same as that of 2010 as the sold lots are coming from the undeveloped portion which was part of the Land Held for Future development under non-current assts. There are ongoing active negotiations with prospective buyers of these parcels of lot.

Due from related parties net balance is payable ₱ 10.766 million as of December 31, 2011 compared to a payable balance of ₱ 33.890 million in 2010. The Company's parent holding company extended advances to support its cash requirement for its capital expenditures on a temporary basis to bridge immediate cash flow requirements.

Restricted deposits decreased by 6% from ₱ 73.4 million in December 31, 2010 to ₱ 69 million in December 31, 2011. Some of the banks released restricted deposits which were previously required.

Input-VAT-net increased by 722% from ₱ 28 million in December 31, 2010 to ₱226 million in December 31, 2011. These are accumulation of input VAT, current and deferred as a result of the continuous capital expenditures of the Group.

Other current assets increased by 140% from ₱ 86 million in December 31, 2010 to ₱ 206 million in December 31, 2011. These are prepayments on taxes, rentals on retail service stations and depot sites, creditable withholding tax and other various prepayments.

As of December 31, 2011, the Group's property and equipment, net of accumulated depreciation, increased to ₱ 5.572 billion compared to ₱ 3.886 billion as of December 31, 2010 as a result of the Company's continuous expansion of retail service stations, Storage Facilities, acquisition of land, purchase of vessel and other minor capital expenditures.

Land held for future developments are parcel of subdivided lot owned by the wholly owned subsidiary PPIPC. The balance is reduced by 14% as a result of the land sale realized by the Group this 2011. The remaining lots may be sold at its current state or be developed for better selling prices which will yield better returns to the Company.

Loans and Borrowings increased by 46% from total ₱4.304 billion as of December 31, 2010 to ₱5.877 billion as of December 31, 2011. This is due to the ₱750 million corporate notes issue by the Group, and the increase in short term loans and borrowings that are related to the financing of the inventory build-up and accounts receivable trade gapping.

Trade and other payables increased by 60%, from ₱ 1.926 billion as of December 31, 2010 to ₱3.084 billion as of December 31, 2011 as a result of the inventory build-up of the Company using suppliers' credit as well as higher unit prices. The increase in Other Payable was mostly payables to contractors and suppliers for construction of depots and retail stations.

Other non-current liabilities increased by 213% in December 31, 2011. Most of this is accumulation of Cash Bond placed by dealers and customer to secure their credit purchases.

Total Stockholders' Equity increased to ₱ 3.714 billion as of December 31, 2011 from ₱ 3.079 billion as of December 31, 2010 due to the ₱ 557 million net income posted during the year. This however was minimized by the effect of the ₱ 108.3 million cash dividend declared and distributed during the year to both common and preferred shareholders. Revaluation of Vessels and CSC assets also affected the amounts for the Revaluation Reserves and other reserves amount.

Key Performance Indicators and Relevant Ratios

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

	2013	**2012**	**2011**
Current Ratio[1]	1.33 : 1	1.56 : 1	0.97 : 1
Debt to Equity[2]	2.43 : 1	2.67 : 1	2.49 : 1
Return on Equity[3]	12.08%	15.86%	16.42%
Net Book Value Per Share[4]	4.55	4.96	5.61
Earnings Per Share-Adjusted [5]	0.45	0.48	0.40

Notes:
1 - Total current assets divided by current liabilities
2 - Total liabilities divided by tangible net worth
3 - Net income divided by average total stockholders' equity
4 –Total stockholders' equity net of preferred divided by the total number of shares issued and outstanding at year-end
5 – Net income after tax (net of Preferred dividend) divided by weighted average number of outstanding common shares adjusted to Stock dividends

These key indicators were chosen to provide management with a measure of the Company's financial strength (Current Ratio and Debt to Equity) and the Company's ability to maximize the value of its stockholders' investment in the Company (Return on Equity, Net Book Value Per Share and Earnings Per Share). Likewise, these ratios are used to compare the Company's performance with similar companies.

The Company debt to equity (DE) ratio for 2013 is 2.43: 1 due to payables to cover level of inventory to support the sales requirement in the first month of 2014. The immediately preceding two years been steady at 2.67: 1 and 2.49: 1 for 2012 and 2011 respectively. However, the DE for interest bearing liabilities is 2.11:1 and 2.21:1 for 2013 and 2012 respectively. The DE is expected improve in succeeding years out of the Groups projected income and various initiatives.

Audit and Audit-Related Fees

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

External Audit Fees and Services

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

Audit and Related Fees

		Amount in Thousands Php		
Particulars	Nature	2011	2012	2013
Punongbayan and Araullo	Audit of FS for the year 2008 - Parent and Subsidiaries			
Punongbayan and Araullo	Audit of FS for the year 2009 - Parent			

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

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

The following are the members of the Audit Committee: Monico Jacob (Independent Director) as Chairman, and Domingo T. Uy and J.V. Emmanuel De Dios as members.

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

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

Changes In and Disagreements With Accountants

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

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors	
Name	Position
Domingo T. Uy	Chairman
Dennis A. Uy	Director, President and Chief Executive Officer
Romeo De Guzman	Director and Chief Operating Officer
Socorro T. Ermac-Cabreros	Director/Corporate Secretary & Assistant Vice President for Corporate Legal
J.V. Emmanuel A. De Dios	Director
Jose Manuel R. Quimson	Director
Monico V. Jacob	Independent Director
Consuelo Ynares-Santiago	Independent Director
Paul G. Dominguez	Director
Cherylyn C. Uy	Director
Joseph John L. Ong	Director, Chief Finance Officer
Senior Officers	
Name	Position
Chryss Alfonsus V. Damuy	Vice President for Finance and Comptroller
Ramon Edison C. Batacan	Chief Corporate Officer & Chief Compliance Officer
Alan Raymond T. Zorilla	Vice President for External Affairs, Business Develpment & Security

Edgardo A. Alerta	Assistant Vice President for Sales- Mindanao
Reynaldo A. Phala	Assistant Vice President for Treasury
Rebecca Pilar C. Caterio	Assistant Vice President for Credit and Collection
Jose Victor L. Cruz	Assistant Vice President for Retail Sales-South Luzon and NCR
Edwin M. Jose	Assistant Vice President for Retail Sales-North Luzon
William M. Azarcon	Assistant Vice President-Operational Engineering & Logistics
Jose Roel C. Cruz	Assistant Vice President for Retail Sales- Mindanao
Gigi Q. Fuensalida	Assistant Corporate Secretary
John Henry C. Yap	Trading and Supply Manager

Board of Directors

Following are descriptions of the business experience of each of the Company's directors:

Domingo T. Uy
Chairman

Domingo T. Uy, Filipino, 66 years old, is a co-founder and has been a member of the Board of Directors of the Company since 2002. Mr. Uy was elected Chairman of the Board of Directors of the Company on February 15, 2007. He is also a Director of Granland Resources Corporation, a corporation involved in real estate development. Mr. Uy is actively involved in socio-civic programs and is a Director of the Philippine National Red Cross, Davao Chapter. He is also the Past President of the Davao City Sta. Ana Lions Club and the Kang Ha Uy Association - Davao Chapter.

Dennis A. Uy
Director, President and Chief Executive Officer

Dennis A. Uy, Filipino, 39 years old, is the founder of the Company and has served as President and Chief Executive Officer since inception. He is the Chairman and President of Phoenix Petroleum Holdings, Inc., the holding company of the Company, and Udenna Corporation, the ultimate parent company. The subsidiaries of the Company are Chelsea Shipping Corp., Phoenix Petroterminals & Industrial Park Corp., Subic Petroleum Trading & Transport Philippines, Inc., PFL Petroleum Management, and Phoenix Global Mercantile, Inc. Among the subsidiaries of Udenna Corporation are Udenna Management & Resources Corp, One Subic Power, Global Synergy Trade and Distribution Corp., Udenna Development Corporation, Value Leases, Inc., Udenna Environmental Solutions, and Udenna Energy Corporation. Mr. Uy is also Chairman of F2 Logistics, Phoenix Philippines Foundation, Inc. and Udenna Foundation, Inc. He is a member of the Young Presidents Organization - Philippine chapter and the Philippine Business for Social Progress. Mr. Uy is the Honorary Consul of Kazakhstan to the Philippine since November 2011. He is a graduate of De La Salle University with a degree in Business Management.

Romeo B. De Guzman
Director, Chief Operating Officer

Romeo B. De Guzman, Filipino, 63 years old, was elected Director of the Company in 2009. He is Chief Operating Officer of the Company, bringing with him 35 years of outstanding experience in the oil industry. Before joining the Company, he was with Pilipinas Shell Petroleum Corporation, where he was Vice President for External Affairs for Asia Pacific and a member of the Board of Directors up to Dec. 2006. He was with the said company holding various management and executive positions. He also worked with Getty Oil Philippines Inc. for 10 years, prior to joining Pilipinas Shell. He carries with him a Marketing Management and an MBA degree from San Sebastian College – Manila.

Jose Manuel R. Quimson
Director

Jose Manuel R. Quimson, Filipino, 64 years old, has been a Director of the Company since February 15, 2007. He is concurrently the General Manager of Phoenix Petroterminals & Industrial Park Corp and the Chief Operating Officer of Chelsea Shipping Corp. Mr. Quimson is a member of the Board of Directors of the Udenna Corporation and its subsidiaries. Previously, he was President of Petrotrade Philippines, Inc. a company providing bunkering services to international vessels. Mr. Quimson has more than 30 years of work experience in the shipping industry.

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

Socorro T. Ermac-Cabreros, Filipino, 47 years old, was elected Director and appointed Corporate Secretary on February 15, 2007. She is concurrently Asst. Vice President for Corporate Legal of the Company. She is also the Corporate Secretary and member of the Board of Directors of Udenna Corporation and its subsidiaries. Prior to joining the Company, she was a Legal Counsel of Philippine National Bank in Davao City. She has worked for the government such as Office of the Ombudsman for Mindanao and later as Prosecutor for the Province of Davao del Norte after engaging in the private practice of law. She finished her law degree at the Ateneo de Davao University College of Law. She is the immediate past President for the Davao City Chapter of the Integrated Bar of the Philippines.

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

J.V. Emmanuel A. De Dios, Filipino, 48 years old, was elected Independent Director of the Company on February 15, 2007 and regular director on March 7, 2008. He is the CEO of GE Philippines, and prior to that was President and CEO of Nido Petroleum Pty Ltd., an Australian Stock Exchange-listed oil and gas company. He was Managing Director of Merritt Advisory Partners, Inc. and was a member of the Board of Directors of Davies Energy Systems, Inc. He also served as Chairman of the Board of the Philippine National Oil Company Exploration Corporation and was former Undersecretary of the Philippine Department of Energy. Atty. De Dios obtained his Master of Laws degree from Harvard Law School and completed his Bachelor of Laws at the Ateneo School of Law.

Monico V. Jacob
Independent Director

Monico V. Jacob, 67 years old, has been Independent Director of the Company since March 7, 2008. He is President and Chief Executive Officer of the STI Education Services Group and iAcademy. He is Chairman of Global Resource for Outsourced Workers (GROW), Inc., STI-Universal Workers, Inc., Accent Healthcare/ STI Banawe, Inc., and Total Consolidated Asset Management, Inc. He is a Partner of the Jacob and Jacob Law Firm and is a member of the Board of Directors of Jollibee Foods, Inc. and Philippine Dealing Systems. He is Chairman and Managing Partner of CEOs Incorporated. He was formerly Associate Commissioner of the Securities and Exchange Commission, General Manager of National Housing Authority, and CEO of the Pag-Ibig Fund. He is a former Chairman and Chief Executive Officer of Petron Corporation and of the Philippine National Oil Company.

Consuelo Ynares-Santiago
Independent Director

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

Paul G. Dominguez
Director

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

Cherylyn C. Uy
Director

Ms. Cherylyn Chiong-Uy, 33 years old, is a graduate of Business and Finance from Ateneo de Davao University. She started her corporate career as Corporate Secretary of a security and manpower agency in Davao City, Security Protection Investigation Detection Emergency Response Services (SPIDER). Ms. Chiong-Uy is also one of the pioneers/incorporators of Udenna Corporation, a corporation composed of 17 subsidiaries which are divided into two (2) groups, the petroleum and non petroleum group. She is also the Corporate Treasurer of Udenna Corporation. Ms. Chiong-Uy is also one of the Executive Directors of Phoenix Philippines Foundation, Inc., the corporate social responsibility arm of the Company. Ms. Chiong-Uy is the Corporate Treasurer of Udenna Management and Resources Corporation and Chelsea Shipping Corp.

Joseph John L. Ong
Director, Chief Finance Officer

Joseph John L. Ong, Filipino, 53 years old, married was elected Director of the Company in 2013. He is also the Chief Finance Officer of Phoenix Petroleum Philippines, Inc. He previously spent almost 10 years at Primeworld Digital Systems, Inc. (Pacific Internet Phils.) initially as Vice President and CFO and eventually as Executive Vice President – Operations and Chief Finance Officer from 2008 - 2009. Prior to that he spent 12 years with Ginebra San Miguel, Inc. (then known as La Tondeña Distillers, Inc.), then the country's 2nd largest beverage company and a listed subsidiary of San Miguel Corporation. He was Vice President – Treasury from 1995 – 1999, at which time he headed the team that took the company public in 1994 and was primarily responsible for institutional-investor relations. Prior to the San Miguel Group, he held various positions at the Bank of the Philippine Islands & Ayala Investment & Development Corp. (before it merged with BPI) from 1980-1986. He received his Bachelor of Science in Commerce from De La Salle University in 1980.

Advisor to the Board

Stephen A. Cu Unjieng
Senior Managing Director of Evercore Partners and Chairman of Evercore Asia Limited

Executive Officers

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

Ramon Edison C. Batacan

Filipino, 55 years old, was appointed Chief Corporate Counsel and concurrently Chief Compliance Officer of the Company in 2013. He is the founder and moderator of Green Juris, a university-based environmental law organization. He served as member of the Board of Regents of the University of Southeastern Philippines (USeP) and currently director of the Rizal Memorial Colleges. He was past president [2001-2003] of the Integrated Bar of the Philippines, Davao City Chapter and past governor [2007-2009] of the IBP-Eastern Mindanao Region. He is also currently a faculty of the Ateneo de Davao University College of Law handling Property, Negotiable Instruments Law and Law of Natural Resources and Environmental Law.

Chryss Alfonsus V. Damuy

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

Reynaldo A. Phala

Filipino, 46 years old, is the Assistant Vice President for Treasury. He joined the Company on October 16, 2008 as its Credit and Collection Manager. Before joining the Company, he was with various banks for seventeen (17) years. He also worked with the Department of Trade and Industry as Municipal Trade and Industry Officer for a year. He is a graduate of Bachelor of Science in Civil Engineering from the Mindanao State University-General Santos City. Mr. Phala is a licensed Civil Engineer having passed the Civil Engineering Licensure Examination last May 1989.

Rebecca Pilar C. Caterio

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

Jose Victor L. Cruz

Filipino, 52 years old, is currently the AVP – Retail Luzon. Mr. Cruz has more than twenty-five (25) years of experience in the oil industry covering retail, commercial, lubricants sales, international business (aviation and shipping for Chevron and Texaco), marketing and distribution, and corporate affairs. Prior to joining the Company in 2010, Mr. Cruz was Vice President for Retail Network Operations of Flying V in 2008 before he was promoted to Chief Operating Officer in 2009. He was COO of Citadel Commercial Inc, from 2001-2002 before he ventured into private enterprise. He held various positions in Caltex Philippines Inc. from 1983 up to 1991 when he handled CPI's International Business. Eventually, Joey was appointed Executive Assistant – Marketing Commercial in 1992. In 1994, he held the position of District Manager – Luzon South Commercial and in 1996, as DM – Luzon Retail, this area being the highest growth region in the country. He was sent to Bangkok, Thailand to observe oil deregulation in action. When the oil deregulation law was enacted, Total Petroleum Philippines Inc. entered the Philippine market and Mr. Cruz joined them as General Manager for Retail. He received training in operations and marketing in France, convenience retailing in England and retail operations and network development in South Africa. Mr. Cruz has completed his MBA curriculum at the De La Salle University. He is a graduate of B.S. Industrial Management Engineering, Minor in Mechanical Engineering and is a Professional Industrial Engineer under the Philippine Institute of Industrial Engineer.

Edgardo A. Alerta

Filipino, 58 years old, is the Assistant Vice President for Sales for Visayas and Mindanao. Rior to joining the Company, Mr. Aleta served as Municipal Councilor of the Municipality of Matanao, Davao Del Sur, Philippines**.** He worked with Pilipinas Shell Petroleum Corporation for 15 years where he started as a Marketing Sales Executive and later progressed to District Sales Manager. He also worked as a Technical Service Engineer of Getty Oil Philippines and was an Energy Examiner of the Department of Energy. Mr. Alerta, who is a licensed Mechanical Engineer, has more than 25 years work experience in the energy and petroleum industries from the government and multinational corporations. He holds two degrees in Engineering: Bachelor of Science Degrees Major in Mechanical Engineering and Electrical Engineering from the Cebu Institute of Technology.

Alan Raymond T. Zorrilla

Filipino, 43 years of age and is currently appointed as the Vice President for Corporate Affairs, Business Development and Security. Prior to his employment with the Company, he was Chief Legal Counsel of Unioil Group of Companies. He also sat as Director for Freeport Services Corporation, as 100% subsidiary of Subic Bay Metropolitan Authority. Atty. Zorilla was engaged in the litigation practice with Pangilinan Britanico Sarmiento and Franco Law Offices, a Makati based Law Office before his engaging into Corporate Practice. Atty. Zorilla is a graduate of the San Beda Law School in 1994.

William M . Azarcon

Filipino, 66 years old is currently the Asst. Vice President for Operational Engineering and Logistics. Mr. Azarcon has twenty six (26) years experience in the oil industry, covering engineering operations, retail and distribution of bulk and packed products nationwide. Mr. Azarcon used to work for Pilipinas Shell Petroleum Corporation and served as Field Engineer in Operations nationwide constructing Depots and related facilities, i.e. jetties, submarine pipelines, bulk storage tanks among others. He held various positions in operations likewise served as Head of Operations of North Luzon and transferred to Retail Engineering as Retail Engineering Manager nationwide. He also served as RVI (Retail Visual Identity) Manager. Mr. Azarcon attended training in engineering courses in Japan, Australia and New Zealand and in different countries in Southeast Asia. After retiring from Shell, Mr. Azarcon engaged in business as Retail Engineering Contractor of Shell. He holds a degree in Bachelor of Science in

Mechanical Engineering from Mapua.

Jose Roel C. Cruz

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

Edwin M. Jose

Filipino, 54 years old, is the Assistant Vice President-Retail Sales-North Luzon. Mr. Jose has more than 29 years of experience in almost all aspects of the downstream oil industry. His last stint with Petron Corporation is as District Manager for Metro Manila - Retailer Trade segment. He completed his Bachelor of Science in Industrial Engineering from the University of Sto. Tomas and took up his Masters in Business Management from the Ateneo de Manila Graduate School of Business.

Richard C. Tiansay

Filipino, 50 years old, is the Assistant Vice President-Sales Visayas. Mr. Tiansay has more than 22 years of experience in the oil industry covering domestic and international operations. His last position in Royal Dutch Shell is as Global SAP IT Order to Cash Team Lead in London, U.K. This after being assigned to various key managerial positions not limited in the Philippines but as well as in a number in Asia Pacific and other countries. Mr. Tiansay completed is Bachelor of Science in Mechanical Engineering from University of San Carlos, Cebu City.

Gigi Q. Fuensalida

Filipino, 36 years old is presently the Asst. Corporate Secretary of the Company. Prior to her employment with the Company, she was one of the Senior Associates of the Villaraza Cruz Marcelo and Angangco Law Office. For six years, Atty. Fuensalida specialized in civil, commercial and criminal litigation wherein she developed strategies for complex litigation and actively participated in the prosecution and defense of criminal cases before the regular trial courts, quasi-judicial bodies and the appellate courts. She started her professional career as an apprentice in the Gaviola Law offices back in May 2000. Atty. Fuensalida holds a degree in Bachelor of Arts Major in Political Science from the Ateneo de Manila University. She further obtained her Juris Doctor degree from the same institution and graduated with honors in 2002. Atty. Fuensalida is a member of the Integrated Bar of the Philippines since 2003.

Maria Rita A. Ros

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

Family Relationships

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

Significant Employees

No single person is expected to make a significant contribution to the Company's business since the Company considers the collective efforts of all its employees as instrumental to the overall success of the Company's performance.

Family Relationships

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

Involvement in Certain Legal Proceedings

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

On the other hand, on 05 May 2011, news reports surfaced on the alleged filing by the Bureau of Customs ("BOC") of a PHP5Billion case against Dennis A. Uy and other respondents for alleged violation of Sections 3602, 2501(l)(1) & (5), 1801, 1802 and 3604 of the Tariff and Customs Code of the Philippines. On 06 July 2011, the subpoena issued by the Department of Justice (DOJ) was received by Mr. Uy. On 16 November 2012, the Department of Justice dismissed the case against Dennis Uy and other respondents. Upon motion for reconsideration, the DOJ, however, on April 24, 2013 recommended the filing of criminal Information against Dennis Uy and all of respondents. On August 27, 2013, DOJ filed 3 criminal information against

Mr. Uy with RTC Batangas and 12 criminal Informations with RTC Davao City.

On September 17, 2013, RTC Batangas dismissed the 3 Criminal Informations against Mr. Uy and on December 6, 2013, RTC Batangas likewise denied the Motion for Reconsideration filed by the BOC. In the meantime, on October 4, 2013, RTC Davao dismissed all 12 charges against Mr. Uy.

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

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

- Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

- Any final and executory order, judgment, or decree or any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and

- Any final and executory judgment by a domestic or foreign court or competent jurisdiction (in a civil action), the SEC, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

Executive Compensation

The Company's executives are regular employees and are paid a compensation package of 12 months pay plus the statutory 13^{th} month pay. They also receive performance bonuses similarly to that of the managerial, supervisory and technical employees.

The members of the Board of Directors who are not employees of the company are elected for a period of one year. They receive compensation on a per meeting participation.

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

Summary of Compensation Table

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

Security Ownership of Certain Beneficial Owners and Management

As of **January 31, 2013** the security ownership of management is as follows:

Title of Class of Securities	Name/Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	% of Ownership
Directors:				
Common	Dennis A. Uy Stella Hizon Reyes Rd., Bo. Pampanga, Lanang, Davao City	3,991,811 direct beneficial owner	Filipino	0.34%
Common	Dennis A. Uy &/or Cherylyn C. Uy Stella Hizon Reyes Rd., Bo. Pampanga, Lanang, Davao City	1,098,099 direct beneficial owner	Filipino	0.08%

Common	Domingo T. Uy Insular Village Phase II, Lanang, Davao City	645,919 direct beneficial owner	Filipino	0.05%
Common	Romeo B. De Guzman Hillsborough, Alabang Village, Muntinlupa City	70,980 direct beneficial owner	Filipino	0.01%
Common	Socorro T. Ermac Cabreros 223 V. Mapa St., Davao City	103,277 direct beneficial owner	Filipino	0.01%
Common	Jose Manuel R. Quimson 28 Osmeña St., Xavierville Subd., Loyola Heights, Katipunan, Quezon City	354,900 direct beneficial owner	Filipino	0.02%
Common	J.V. Emmanuel A. De Dios c95 A. Melchor St., Loyola Heights, Quezon City	1 direct beneficial owner	Filipino	0.00%
Common	Ricardo S. Pascua 3 Pebblewood cor. Fairwood, McKinely Hill Village, Taguig City	1 direct beneficial owner	Filipino	0.00%
Common	Monico V. Jacob 7th flr Philippine First Bldg, 6764 Ayala Ave., Makati City	1 direct beneficial owner	Filipino	0.00%
Common	Consuelo Ynares-Santiago	1 direct beneficial owner	Filipino	0.00 %
Common	Paul G. Dominguez	1 direct beneficial owner	Filipino	0.00 %
Common	John Joseph L. Ong	1 direct beneficial	Filipino	0.00 %

		owner		

Senior Management:

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

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

The number of aggregate shares for all directors and executive officers is Six Million eight hundred ninety eight thousand seven hundred thirty eight (6,898,738).

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

Certain Relationships and Related Transactions

The Company’s related parties include its parent company, subsidiaries, stockholders, the Company’s key management and others as described below.

a.) Rentals

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

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

b.) Contract of Affreightment

The Company entered into a Contract of Affreightment with Chelsea Shipping Company, a wholly owned subsidiary, to haul the Company's petroleum supplies for both regional and domestic.

c.) Due to and Due from Related Parties

PPPI grants and obtains advances to and from its parent company, subsidiaries and other related companies for working capital purposes.

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

	2013	**2012**
PPHI		
Balance at beginning of year	-	
Additions		-
Collections		
Balance at end of year	**-**	**-**
UMRC		
Balance at beginning of year	4,963,790.66	9,472,308.32
Additions		
Collections		(14,436,098.98)
Balance at end of year	**4,963,790.66**	**(4,963,790.66)**
Total Due from Related Parties		
Balance at beginning of year	4,963,790.66	9,472,308.32
Additions		-
Collections		(14,436,098.98)
Balance at end of year	**4,963,790.66**	**(4,963,790.66)**

CORPORATE GOVERNANCE

On April 5, 2002, the SEC promulgate the Code of Corporate Governance (SEC Memorandum Circular No. 2, Series of 2002) consistent with and in pursuit of the State's policy to promote corporate governance reforms aimed at raising investor confidence, developing the capital market, and helping achieve high, sustained growth for the corporate sector and the economy. This Code applies to all corporations whose securities are registered or listed, corporations which are grantees of permits/licenses and secondary franchise from the SEC. It also applies to public companies and branches or subsidiaries of foreign corporations operating in the Philippines whose securities are registered or listed. Each of these corporations is required to promulgate and adopt its corporate governance rules and principles.

The Code of Corporate Governance prescribes the detailed qualifications and disqualifications, duties, functions and responsibilities of the Board of Directors and each member thereof, the Chairman, the Chief Executive Officer, and the Corporate Secretary. It also mandates the creation of specific board committees in aid of good corporate governance, to wit, an Audit and Compliance Committee, a Nomination Committee and a Compensation Committee, and requires the Board to commit itself to the protection of the rights of stockholders.

The Company is currently in the process of drafting its Corporate Governance Manual. It is expected to be submitted to the Company's Board for approval before the Listing Date.

MATERIAL CONTRACTS AND AGREEMENTS

The Company's principal contracts generally consist of dealership agreements and contracts of lease. Other than these, the Company is not a party to any contract or agreement of material importance and outside the usual course of business and the Directors do not know of any such contract or agreement involving the Company.

DEALERSHIP AGREEMENT

The Company has dealership agreements with all of its franchisees. The dealership agreement sets out the term for the non-exclusive right of the dealer to operate a Phoenix service station, and use the equipment and system developed by the Company. It specifies each party's responsibility as to the equipment, supplies and operation of the service station, training and assistance of personnel, standards of quality and performance, insurance coverage, among other things.

The agreement is co-terminus with the contract of lease which ranges from five to ten years and renewable for another five (5) years.

CONTRACT OF LEASE

The Company has various contracts of lease covering the lots used for the terminal depot, and Company-owned retail service stations. The average term of the lease is seven years.

SERVICE AGREEMENT

The Company has an existing service agreement with Cebu Air Incorporated ("CAI") whereby the Company provides fuel and handling services and facilities for the storage and handling of Jet A1 fuel of CAI. This agreement is until August 31, 2014.

REGULATORY & ENVIRONMENTAL MATTERS

The DOE is the lead government agency overseeing the oil sector. It monitors prices and adherence by industry players to the Downstream Oil Industry Deregulation Act. This act deregulated the downstream oil industry by encouraging the entry of new participants in the downstream oil industry, and removed the rate-setting function of the then ERB and leaving it to market forces.

On the issue of volume regulation, in the event of supply shortage, the government may undertake supply rationing as a contingency measure. However, in recent years, this measure has not yet been invoked.

In addition, the President issued Executive Order No. 134 in October 2002 requiring oil companies to maintain sufficient level of inventory of oil. However, the said Order was relaxed in March 2003, by virtue of Department Circular No. 2003-03-002, which reduced the minimum level to only 15 days.

Importation of both crude and finished products (except for LPG) is levied a 3% import duty. Financial import barriers are low, given that there is zero tariff differential between crude and products. Physical and logistical barriers are likewise low, as there are now several import terminals operated/owned by independent storage companies or by domestic oil companies.

Any capital expenditure requires compliance with the environmental regulations in the medium term. Republic Act 8749, or the Philippine Clean Air Act, mandates the sulfur and benzene content for gasoline and automotive diesel.

More recently, Republic Act 9367 or the Biofuels Act of 2006 was passed mandating the use of biofuels (bioethanol and biodiesel). The Act mandates that within two years from its effectivity, all liquid fuels for motors and engines sold in the Philippines shall contain locally-sourced biofuels components of at least five percent bioethanol in the annual total volume of gasoline fuel actually sold and distributed by each and every oil company in the country

The DTI, through the Bureau of Products Standards, on the other hand ensures that all products comply with the requirements under the Philippine National Standards.

The BOI, where applicable, extends the same incentives granted to BOI-registered enterprises engaged in a preferred area of investments pursuant to Executive Order No. 226, otherwise known as the "Omnibus Investment Code of 1987" to persons with new investments in refining, storage, marketing and distribution of petroleum products as determined by the DOE.

The DENR, on the other hand, ensures that all projects comply with environmental laws, specifically, the Philippine Clean Air Act. The DENR, through the Environmental Management Bureau, is the agency that issues Environmental Compliance Certificate for all projects deem to have impact on the environment.

EXPENSES OF ISSUANCE AND DISTRIBUTION

The Company raised about ₱500,000,000.00 from the Offer based on an Issue Price of ₱100.00 per share for 5,000,000 preferred shares. After deducting the applicable taxes, underwriting fees, commission and expenses related to the Offer, the net proceeds to the Company from the Offer is estimated at about ₱ 486,060,764.50.00.

The expenses and costs are estimated and broken down as follows:

Offer Expenses	Amount
Taxes	2,500,000.00
Legal and other Professional Fees	336,000.00
Issue Management Fees	2,500,000.00
Underwriting and Selling Fees	7,500,000.00
Miscellaneous	2,948.00
SEC Filing Fees	539,087.50
PSE Listing and Processing Fee	511,200.00
PDTC lodgment Fee (estimated)	50,000.00
Total Offer Expenses (estimated)	**₱13,939,235.50**

The above expenses are however borne by the Company. Hence, the Company received the gross amount in full to fully redeem the previously issued Preferred shares issued on September 21, 2010.

GENERAL CORPORATE INFORMATION

INCORPORATION

The Company is duly organized as a corporation under the laws of the Philippines and was registered with the SEC on May 8, 2002.

ARTICLES OF INCORPORATION AND BY-LAWS

The Articles of the Company was approved by the SEC on May 8, 2002 and was amended on the following dates: February 11, 2004, February 12, 2006, August 7, 2006 and December 29, 2006. The latest amended Articles was approved by the SEC on March 8, 2010.

The By-Laws of the Corporation was registered with the SEC on May 8, 2002, together with the Articles of Incorporation, and was amended on February 19, 2007.

PRIMARY PURPOSE

Under the Articles, the Company's primary purpose is to "engage in, conduct and carry on the business of buying, selling, distributing, marketing at wholesale and retail, insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description and all merchandise, supplies, materials and articles, such as, but not limited to, petroleum, lubricants and other chemical products, as shall be necessary or expedient in conducting the business; to enter into all kinds of contracts for the export, import, purchase, acquisition for its own account as principal or in representative capacity as manufacturer's representative, merchandise broker, commission merchant, factors or agents, upon consignment of all kinds of goods, wares, merchandise or products, whether natural or artificial."

Based on the Amended Articles of Incorporation, the secondary purpose for which the Company is formed is "to engage in the business of operating oil depots, storage facility and allied services."

CORPORATE TERM

The Company is authorized to exist for a term of 50 years from the date of its incorporation. This term may be renewed through an amendment to the Articles approved by the SEC.

FISCAL YEAR

The fiscal year of the Company begins on the first day of January and ends on the last day of December of each year.

APPROVALS

The issue and sale of the Preferred Shares was duly authorized by resolutions of the Board of Directors of the Company passed on January 15, 2010, and by written assent of the Shareholders passed on March 9, 2010.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Articles and By-laws are available for inspection by the Company's stockholders at the principal office of the Company, during normal business hours on any day on which such office is open for business. Copies may also be inspected at the office of the SEC.

TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Preferred Shares. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Preferred Shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Preferred Shares under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Preferred Shares in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus. The tax treatment of a holder of Preferred Shares may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Preferred Shareholder.

PROSPECTIVE PURCHASERS OF THE PREFERRED SHARES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE PREFERRED SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

Taxes on Dividends on the Preferred Shares

Individual Philippine citizens and individual aliens who are residents of the Philippines are subject to a final tax on dividends derived from the Preferred Shares at the rate of 10%, which tax shall be withheld by the Company.

The dividends derived by domestic corporations (i.e. corporations created or organized in the Philippines or under its laws) and resident foreign corporations (i.e. foreign corporations engaged in trade or business within the Philippines) from the Preferred Shares shall not be subject to tax.

Non-resident alien individuals engaged in a trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Preferred Shares at the rate of 20% subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident alien individual. A non-resident alien individual who comes to the Philippines and stays for an aggregate period of more than 180 days during any calendar year is considered engaged in a trade or business in the Philippines. Non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Preferred Shares at the rate of 25% subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident alien individual.

The term “non-resident holder” means a holder of the Preferred Shares:

(a) who is an individual who Is neither a citizen nor a resident of the Philippines or an entity which is a foreign corporation not engaged in trade or business in the Philippines; and

(b) should a tax treaty be applicable, whose ownership of the Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

Dividends received from a domestic corporation by a non-resident foreign corporation are generally subject to final withholding tax at the rate of 30% beginning January 1, 2009 subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident foreign corporation. The 35% or 30% rate for dividends paid to non-resident foreign corporations may be reduced to a special 15% rate if:

(a) the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign sourced dividends; or

(b) the country in which the non-resident foreign corporation is domiciled allows a credit against the tax due from the non-resident corporation taxes deemed to have been paid in the Philippines equivalent to 20% (until December 31, 2008) or 15% (beginning January 1, 2009).

Philippine tax authorities have prescribed, through an administrative issuance, procedures for availment of tax treaty relief. Subject to the approval by Philippine tax authorities of a corporation’s application for tax treaty relief, the corporation will withhold at a reduced rate on dividends paid to a non-resident holder of Preferred Shares or interest paid to a non-resident holder if such non-resident holder provides the corporation with proof of residence and, if applicable, individual or corporate status. Proof of residence for an individual consists of a certification from his embassy, consulate or other proper authority as to his citizenship and residence. Proof of residence and corporate status for a corporation consists of authenticated copies of its articles of association, or other equivalent certifications issued by the proper government authority, or any other official document proving residence. If the regular rate of tax is withheld by the corporation instead of the reduced rates applicable under a treaty, the non-resident holder of Preferred Shares may file a claim for a refund from the Philippine taxing authorities. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

Taxes on Payments on the Preferred Shares

All payments in respect of the Preferred Shares are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Philippines, including but not limited to, stamp, issue, registration, documentary, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the Company will pay additional amounts so that holders of Preferred

Shares will receive the full amount of the relevant payment which otherwise would have been due and payable. However, the Company shall not be liable for:

(a) the final withholding tax applicable on dividends earned on the Preferred Shares
(b) expanded value added tax which may be payable by any Preferred Share holder on any amount to be received from the Company under the Offer, and
(c) any withholding tax on any amount payable to any Preferred Share holder or any entity which is a non-resident foreign corporation.

In addition, all sums payable by the Company to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or governmental charges.

Taxes on Sale or Other Disposition of the Shares

Sales, exchanges or other dispositions of Preferred Shares which are effected through the PSE by persons other than a dealer in securities are subject to a stock transaction tax at the rate of 0.5% based on the gross selling price of the shares. This tax is required to be collected by and paid to the Government by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Notwithstanding its classification as a percentage tax, exemptions from capital gains tax may also apply to the stock transaction tax under the terms of some tax treaties.

Subject to applicable tax treaty rates, a capital gains tax of 5% on the net capital gains realized during the taxable year, not in excess of P100,000.00, and 10% on the net capital gains realized during the taxable year, in excess of P100,000.00, is imposed on sales, exchanges or other dispositions of shares of stock not traded through a local stock exchange. As a practical matter, in order for an exemption under a tax treaty to be recognized, an application for tax treaty relief must be filed and approved by Philippine tax authorities. A non-resident holder must submit proof of residence as described above.
A certificate from the tax authority of the recipient's country is a generally accepted proof of residence, for both individuals and corporations. Aside from proof of residence, the BIR also requires the following documents:

(a) special power of attorney duly executed by the recipient in favor of its Philippine agent/withholding agent to file a claim for tax treaty relief;
(b) certification from the SEC that the recipient company is not registered to engage in business in the Philippines;
(c) letter providing information on the transaction covered by treaty provisions and requested tax treatment for such transaction and legal justification;
(d) duly notarized certificate of the Corporate Secretary of the Philippine corporation in respect of the resolution of its board of directors declaring the dividends; and
(e) duly notarized certification by the Corporate Secretary of the Philippine corporation showing the number and value of the shares of the applicant and the percentage of the latter's ownership in the Philippine corporation as of the date of the transaction.

Tax Treaties

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

In percentage (%)	Dividends	Stock transaction tax on sale or disposition effected through the PSE	Capital Gains Tax due on disposition of of Shares outside the PSE
Canada	25[(1)]	Exempt[(8)]	Exempt[(8)]
France	15[(2)]	Exempt[(8)]	Exempt[(8)]
Germany	15[(3)]	0.5	5/10[(9)]
Japan	25[(4)]	Exempt[(8)]	Exempt[(8)]
Singapore	25[(5)]	Exempt[(8)]	Exempt[(8)]
United Kingdom	25[(6)]	Exempt[(10)]	Exempt[(10)]
United States	25[(7)]	Exempt	Exempt[(8)]

Notes:

(1) 15% if recipient company controls at least 10% of the voting power of the company paying the dividends.

(2) 10% if the recipient company holds directly at least 15% of the voting shares of the company paying the dividends.

(3) 10% if the recipient company owns directly at least 25% of the capital of the company paying the dividends.

(4) 10% if the recipient company holds directly at least 25% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of 6 months immediately preceding the date of payment of the dividends.

(5) 15% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting stock of the paying company was owned by the recipient company.

(6) 15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends.

(7) 20% if during the part of the paying corporation's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting stock of the paying corporation were owned by the recipient corporation. Notwithstanding the rates provided under the RP-US Treaty, residents of the US may avail of the 15% withholding tax rate under the tax-sparing clause of the Philippine Tax Code provided certain conditions are met.

(8) Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.

(9) Under the RP-Germany Tax Treaty, capital gains from the alienation of shares of a Philippine corporation may be taxed in the Philippines irrespective of the nature of the assets of the Philippine corporation. Tax rates are 5% on the net capital gains realized during the taxable year not in excess of P100,000 and 10% on the net capital gains realized during the taxable year in excess of P100,000.

(10) Under the RP-UK Tax Treaty, capital gains on the sale of the stock of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.

* The Philippine tax authorities, in a recent ruling, have taken the position that the stock transaction tax is not identical or substantially similar to the income tax/capital gains tax on a sale of shares in a domestic corporation, and, hence, not covered by the treaty exemption.

Documentary Stamp Taxes on Preferred Shares

The Philippines imposes a documentary stamp tax on the issuance of the Preferred Shares at the rate of P1.00 on each P200.00, or fraction thereof, of the par value of the shares.

The Philippines also imposes a documentary stamp tax upon transfers of the Preferred Shares at a rate of P0.75 on each P200.00, or fractional part thereof, of the par value of the shares. The documentary stamp tax is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable either by the vendor and the purchaser of the Preferred Shares.

However, the sale, barter or exchange of Preferred Shares should they be listed and traded through the PSE are exempt from documentary stamp tax.

Estate and Gift Taxes

The transfer of the Preferred Shares upon the death of a registered holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over ₱ 200,000.00.

Individual registered holders, whether or not citizens or residents of the Philippines, who transfer shares by way of gift or donation will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15% if the total net gifts made during the calendar year exceed ₱ 100,000.00 provided that the rate of tax with respect to net gifts made to a stranger (one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30%. Corporate registered holders are also liable for Philippine donor's tax on such transfers, but the rate of tax with respect to net gifts made by corporate registered holders is always at a flat rate of 30%.

Estate and gift taxes will not be collected in respect of intangible personal property (a) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Corporate Income Tax

In general, a tax of 35% is imposed upon the taxable net income of a domestic corporation from all sources (within and outside the Philippines). However, effective January 1, 2009, the corporate income tax rate was reduced to 30% pursuant to Republic Act 9337. Gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust fund and similar arrangements as well as royalties from sources within the Philippines are however subject to a final withholding tax of 20% of the gross amount of such income.

PHILIPPINE FOREIGN INVESTMENT, FOREIGN OWNERSHIP AND EXCHANGE CONTROLS

REGISTRATION OF FOREIGN INVESTMENTS AND EXCHANGE CONTROLS

Under current BSP regulations, a foreign investment in listed Philippine securities (such as the Common Shares) must be registered with the BSP if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings which accrue thereon will be sourced from the banking system. The application for registration must be filed by a stockbroker/dealer or an underwriter directly with the BSP or with a custodian bank designated by the investor. A custodian bank may be any commercial bank or offshore banking unit in the Philippines appointed by the investor to register the investment, hold shares for the investor, and represent the investor in all necessary actions in connection with his investments in the Philippines. Applications for registration must be accompanied by: (i) a purchase invoice, or subscription agreement and/or proof of listing in the PSE; and (ii) the Authorized Agent Bank's ("AAB") Certificate of Inward Remittance ("CIR") of foreign exchange and its conversion to pesos thru an AAB. Upon submission of the required documents, a Bangko Sentral Registration Document ("BSRD") will be issued.

Proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately in full through the Philippine commercial banking system, net of applicable tax, without need of BSP approval. Remittance is allowed upon presentation of the BSRD, at the exchange rate applicable on the date of actual remittance. Pending repatriation or reinvestment, divestment proceeds, as well as dividends of registered investments, may be lodged temporarily in interest-bearing deposit accounts. Interest earned thereon, net of taxes, is also remittable in full. Remittance of divestment proceeds of dividends of registered investments may be reinvested in the Philippines if the investments are registered with the BSP.

The foregoing is subject to the power of the BSP, with the approval of the President of the Philippines, to restrict the availability of foreign exchange during an exchange crisis, when an exchange crisis is imminent or in times of national emergency.

The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor.

RESTRICTION ON FOREIGN OWNERSHIP

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of companies engaged in certain activities, among them the exploration, development, and utilization of natural resources and retail trade. The Government grants the use of foreshore lands to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

Since the Company holds a foreshore lease, the Company must comply with the foregoing restrictions on foreign ownership.

Punongbayan & Araullo
An instinct for growth™

Report of Independent Auditors

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The Board of Directors
P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

We have audited the accompanying consolidated financial statements of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2013, 2012 and 2011, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries as at December 31, 2013, 2012 and 2011, and of their consolidated financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 4225011, January 2, 2014, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-2 (until Sept. 5, 2016)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-22-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

February 8, 2014

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
A S S E T S				
CURRENT ASSETS				
Cash and cash equivalents	6	**P 357,220,520**	P 438,510,937	P 924,008,515
Trade and other receivables - net	7	**7,343,793,926**	3,557,002,879	2,865,485,431
Inventories	8	**3,812,532,673**	3,688,759,676	2,132,622,405
Land held for sale and land development costs	9	**503,672,474**	502,030,559	451,587,118
Due from related parties	25	**2,747,994**	8,300,000	26,311,686
Restricted deposits	10	**95,419,646**	82,694,029	69,036,837
Input value-added tax - net		**448,838,093**	392,968,622	226,507,521
Prepayments and other current assets	11	**489,913,177**	282,360,522	206,209,945
Total Current Assets		**13,054,138,503**	8,952,627,224	6,901,769,458
NON-CURRENT ASSETS				
Installment contract receivable		**-**	-	9,002,788
Land held for future development	13	**297,942,281**	289,078,227	271,981,834
Property and equipment - net	12	**8,628,490,469**	6,998,785,818	5,572,270,773
Investment in an associate		**2,250,000**	-	-
Goodwill	15	**84,516,663**	84,516,663	85,783,624
Other non-current assets	14	**270,215,050**	167,807,348	117,847,917
Total Non-current Assets		**9,283,414,463**	7,540,188,056	6,056,886,936
TOTAL ASSETS		**P 22,337,552,966**	P 16,492,815,280	P 12,958,656,394
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Interest-bearing loans and borrowings	16	**P 8,207,229,484**	P 4,119,347,152	P 4,031,200,956
Trade and other payables	17	**1,570,427,327**	1,547,105,184	3,083,587,717
Due to related parties	25	**64,161,243**	85,551,745	37,077,904
Total Current Liabilities		**9,841,818,054**	5,752,004,081	7,151,866,577
NON-CURRENT LIABILITIES				
Interest-bearing loans and borrowings	16	**5,544,509,333**	5,795,974,645	1,846,117,207
Due to related parties	25	**-**	-	24,102,695
Deferred tax liabilities - net	24	**76,530,691**	105,807,524	5,934,044
Other non-current liabilities	18	**376,789,584**	356,858,036	216,238,196
Total Non-current Liabilities		**5,997,829,608**	6,258,640,205	2,092,392,142
Total Liabilities		**15,839,647,662**	12,010,644,286	9,244,258,719
EQUITY	26			
Common stock		**1,428,777,232**	906,059,416	661,123,014
Preferred stock		**5,000,000**	5,000,000	5,000,000
Additional paid-in capital		**3,367,916,774**	2,051,723,794	2,051,723,794
Revaluation reserves		**272,621,771**	282,423,030	71,543,651
Other reserves		**(622,952,239)**	(622,952,239)	(622,952,239)
Retained earnings		**2,046,541,766**	1,859,916,993	1,547,959,455
Total Equity		**6,497,905,304**	4,482,170,994	3,714,397,675
TOTAL LIABILITIES AND EQUITY		**P 22,337,552,966**	P 16,492,815,280	P 12,958,656,394

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
REVENUES				
Sale of goods	25	**P 43,139,691,819**	P 34,080,171,520	P 27,073,793,112
Charter fees	2	**205,235,733**	201,813,941	133,482,323
Rent and storage income	29	**79,208,786**	113,295,479	76,051,056
Port revenues	2	**65,206,403**	54,385,910	57,579,514
Fuel service and other revenues	2	**62,643,613**	135,885,455	110,071,589
		43,551,986,354	34,585,552,305	27,450,977,594
COST AND EXPENSES				
Cost of sales and services	19	**40,248,166,084**	31,961,749,413	25,327,617,229
Selling and administrative expenses	20	**1,991,460,138**	1,473,661,606	1,252,202,614
		42,239,626,222	33,435,411,019	26,579,819,843
OTHER INCOME (CHARGES)				
Finance costs	21	**(669,030,064)**	(519,720,493)	(347,968,406)
Finance income	21	**8,481,577**	24,629,351	21,928,387
Gain on sale of property and equipment		**-**	-	41,885,044
Others	15	**14,625,113**	16,133,556	15,033,237
		(645,923,374)	(478,957,586)	(269,121,738)
PROFIT BEFORE TAX AND PRE-ACQUISITION INCOME		**666,436,758**	671,183,700	602,036,013
PRE-ACQUISITION INCOME		**-**	-	(3,163,822)
PROFIT BEFORE TAX		**666,436,758**	671,183,700	598,872,191
TAX EXPENSE	24	**1,379,153**	19,873,548	41,160,013
NET PROFIT	27	**665,057,605**	651,310,152	557,712,178
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Revaluation (reversal of revaluation) of tankers	26	**6,847,358**	331,807,097	(55,931,472)
Remeasurements of post-employment defined benefit obligation	22	**(3,147,836)**	(13,306,797)	(166,617)
Tax income (expense)	24	**(1,109,855)**	(95,550,091)	16,829,428
Total Other Comprehensive Income (Loss) - net of tax		**2,589,667**	222,950,209	(39,268,661)
TOTAL COMPREHENSIVE INCOME		**P 667,647,272**	P 874,260,361	P 518,443,517
Basic and Diluted Earnings per share	27	**P 0.45**	P 0.48	P 0.40

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Other Reserves	Other Comprehensive Income: Revaluation Reserves	Retained Earnings	Total	Total Equity
Balance at January 1, 2013									
As previously reported		**P 906,059,416**	**P 5,000,000**	**P 2,051,723,794**	**(P 622,952,239)**	**P 294,152,102**	**P 1,852,093,238**	**P 2,146,245,340**	**P 4,486,076,311**
Effect of adoption of PAS 19	2	**-**	**-**	**-**	**-**	**(11,729,072)**	**7,823,755**	**(3,905,317)**	**(3,905,317)**
As restated		**906,059,416**	**5,000,000**	**2,051,723,794**	**(622,952,239)**	**282,423,030**	**1,859,916,993**	**2,142,340,023**	**4,482,170,994**
Issuance of shares during the year		**193,000,000**	-	**1,316,192,980**	**-**	-	-	**-**	**1,509,192,980**
Stock dividends	26	**329,717,816**	**-**	**-**	**-**	**-**	**(329,717,816)**	**(329,717,816)**	**-**
Cash dividends	26	**-**	**-**	**-**	**-**	**-**	**(161,105,942)**	**(161,105,942)**	**(161,105,942)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**2,589,667**	**665,057,605**	**667,647,272**	**667,647,272**
Transfer of revaluation reserves absorbed through depreciation, net of tax		**-**	**-**	**-**	**-**	**(12,390,926)**	**12,390,926**	**-**	**-**
Balance at December 31, 2013	26	**P 1,428,777,232**	**P 5,000,000**	**P 3,367,916,774**	**(P 622,952,239)**	**P 272,621,771**	**P 2,046,541,766**	**P 2,319,163,537**	**P 6,497,905,304**
Balance at January 1, 2012									
As previously reported		P 661,123,014	P 5,000,000	P 2,051,723,794	(P 622,952,239)	P 73,957,965	P 1,542,110,417	P 1,616,068,382	P 3,710,962,951
Effect of adoption of PAS 19	2	-	-	-	-	(2,414,314)	5,849,038	3,434,724	3,434,724
As restated		661,123,014	5,000,000	2,051,723,794	(622,952,239)	71,543,651	1,547,959,455	1,619,503,106	3,714,397,675
Stock dividends	26	244,936,202	-	-	-	-	(244,936,202)	(244,936,202)	-
Cash dividends	26	-	-	-	-	-	(106,487,242)	(106,487,242)	(106,487,242)
Adjustments		200	-	-	-	-	-	-	200
Total comprehensive income for the year		-	-	-	-	222,950,209	651,310,152	874,260,361	874,260,361
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	-	(12,070,830)	12,070,830	-	-
Balance at December 31, 2012	26	P 906,059,416	P 5,000,000	P 2,051,723,794	(P 622,952,239)	P 282,423,030	P 1,859,916,993	P 2,142,340,023	P 4,482,170,994
Balance at January 1, 2011									
As previously reported	2	P 548,075,739	P 5,000,000	P 2,051,727,435	(P 854,202,239)	P 121,056,606	P 1,206,957,748	P 1,328,014,354	P 3,078,615,289
Effect of adoption of PAS 19		-	-	-	-	(2,297,682)	4,683,157	2,385,475	2,385,475
As restated		548,075,739	5,000,000	2,051,727,435	(854,202,239)	118,758,924	1,211,640,905	1,330,399,829	3,081,000,764
Reclassification		3,641	-	(3,641)	-	-	-	-	-
Change due to the increase in capital stock of merged subsidiary prior to merger		-	-	-	231,250,000	-	-	-	231,250,000
Stock dividends	26	113,043,634	-	-	-	-	(113,043,634)	(113,043,634)	-
Cash dividends	26	-	-	-	-	-	(108,349,994)	(108,349,994)	(108,349,994)
Total comprehensive income (loss) for the year		-	-	-	-	(39,268,661)	557,712,178	518,443,517	518,443,517
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	-	(6,845,545)	-	(6,845,545)	(6,845,545)
Reversal of revaluation reserve of assets sold during the year		-	-	-	-	(1,101,067)	-	(1,101,067)	(1,101,067)
Balance at December 31, 2011	26	P 661,123,014	P 5,000,000	P 2,051,723,794	(P 622,952,239)	P 71,543,651	P 1,547,959,455	P 1,619,503,106	P 3,714,397,675

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 666,436,758**	P 671,183,700	P 598,872,191
Adjustments for:				
Interest expense	21	**617,451,997**	467,358,205	305,402,087
Depreciation and amortization	12, 14	**528,400,077**	405,815,569	299,109,747
Impairment losses	21	**17,959,002**	37,851,057	27,252,323
Interest income	21	**(8,481,577)**	(9,406,440)	(7,834,039)
Gain on sale of property and equipment		**-**	-	(41,885,044)
Operating profit before working capital changes		**1,821,766,257**	1,572,802,091	1,180,917,265
Increase in trade and other receivables		**(3,804,750,049)**	(729,368,304)	(336,349,201)
Increase in inventories		**(123,772,997)**	(1,556,137,271)	(1,080,963,476)
Increase in land held for sale and land development costs		**(1,641,915)**	(50,443,441)	-
Decrease (increase) in restricted deposits		**(12,725,617)**	(13,657,192)	4,385,879
Increase in input value-added tax		**(55,869,471)**	(166,461,101)	(198,968,411)
Increase in prepayments and other current assets		**(207,552,655)**	(76,150,578)	(120,170,018)
Decrease in installment contract receivable		**-**	9,002,788	9,002,852
Increase (decrease) in trade and other payables		**23,322,143**	(1,536,482,533)	1,157,484,239
Cash generated from (used in) operations		**(2,361,224,304)**	(2,546,895,541)	615,339,129
Cash paid for income taxes		**(1,635,260)**	(564,033)	(512,582)
Net Cash From (Used in) Operating Activities		**(2,362,859,564)**	(2,547,459,574)	614,826,547
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	12	**(2,125,320,072)**	(1,478,870,447)	(2,064,121,108)
Increase in other non-current assets		**(149,078,003)**	(184,693,102)	(30,120,106)
Collections from related parties	25	**22,914,084**	27,479,102	39,440,905
Advances to related parties	25	**(17,362,078)**	(9,467,416)	(45,743,477)
Decrease (increase) in land held for future development		**(8,864,054)**	(17,096,393)	43,892,916
Interest received		**8,481,577**	9,406,440	7,834,039
Proceeds from disposal of property and equipment		**1,834,386**	2,734,603	73,640,008
Net Cash Used in Investing Activities		**(2,267,394,160)**	(1,650,507,213)	(1,975,176,823)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in interest-bearing loans and borrowings		**3,836,417,020**	4,038,003,634	1,843,094,039
Proceeds from issuance of shares of stock		**1,509,192,980**	-	-
Interest paid		**(617,451,997)**	(467,358,205)	(305,402,087)
Payments of cash dividends	26	**(161,105,942)**	(106,487,242)	(108,349,994)
Repayments to related parties	25	**(21,390,502)**	(153,064,039)	(141,049,161)
Increase in other non-current liabilities		**3,301,748**	223,939,876	91,791,319
Proceeds from borrowings from related parties	25	**-**	177,435,185	57,164,052
Decrease (increase) in other reserves		**-**	-	231,250,000
Net Cash From Financing Activities		**4,548,963,307**	3,712,469,209	1,668,498,168
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(81,290,417)**	(485,497,578)	308,147,892
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**438,510,937**	924,008,515	615,860,623
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	**P 357,220,520**	P 438,510,937	P 924,008,515

Supplemental Information on Non-cash Investing and Financing Activities

1) Stock dividends declared and distributed by the Group amounted to P329.7 million in 2013, P244.9 million in 2012 and P113.0 million in 2011 (see Note 26.6).

2) On July 6, 2012, the Board of Directors of the Parent Company approved the acquisition of 100% shares of stock of Chelsea Shipping Corp. (CSC) via share-for-share swap. The agreed purchase price amounted to P1,578.0 million payable as 90% issuance of new common shares of the Parent Company and 10% cash. Accordingly, 171.35 million new common shares were issued in favor of Udenna Management & Resources Corp., a related party under common control. The acquisition of CSC is accounted for as business combination using pooling-of-interest method.

3) Certain hauling and heavy equipment with carrying amount of P23.7 million, P25.5 million and nil as of December 31, 2013, 2012 and 2011, respectively, are carried under finance leases (see Notes 12.6, 16.6 and 29.5).

4) The Group's tankers were revalued by an independent appraiser in each year from 2009. Revaluation reserves amounted to P286.6 million, P294.1 million and P74.0 million as of December 31, 2013, 2012 and 2011, respectively (see Notes 12.3 and 26.5).

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

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 41% and 53% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines, as of December 31, 2013 and 2012, respectively.

The Parent Company's shares of stocks are listed with the Philippine Stock Exchange (PSE). The Parent Company is presently engaged in trading of petroleum products on wholesale and retail basis and operating of gas stations, 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 was incorporated in the Philippines 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 368 operating service stations, including 112 service stations in Luzon, 47 in the Visayas and 209 in Mindanao and a total of 70 service stations under construction as of December 31, 2013.

1.2 Subsidiaries, Associate and their Operations

The Parent Company holds ownership interests in the following entities as of December 31 (the Parent Company and the subsidiaries are collectively referred to as "the Group"):

	2013	2012
P-F-L Petroleum Management, Inc. (PPMI)	**100%**	100%
P-H-O-E-N-I-X Global Mercantile, Inc. (PGMI)	**100%**	100%
Phoenix Petroterminals & Industrial Park Corp. (PPIPC)	**100%**	100%
Subic Petroleum Trading and Transport Phils., Inc. (SPTT)	**100%**	100%
Chelsea Shipping Corp. (CSC)	**100%**	100%
Bunkers Manila, Inc. (BMI)*	**100%**	100%
Michael, Inc. (MI)*	**100%**	100%
PNX – Chelsea Shipping Corp. (PNX – Chelsea)*	**100%**	100%
Chelsea Ship Management Marine Services Corp. (CSMMSC)*	**100%**	100%
Fortis Tugs Corp. (FTC)*	**100%**	-
Norse/Phil Marine Services Corp. (NPMSC)**	**45%**	-

** Wholly-owned subsidiaries of CSC*
***Associate of CSC*

All the subsidiaries were organized and incorporated in the Philippines.

PPMI is primarily engaged in organizing, managing, administering, running and supervising the operations and marketing of various kinds of services-oriented companies such as petroleum service stations. PPMI was registered with the Securities and Exchange Commission (SEC) on January 31, 2007.

PGMI was registered with the SEC 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 has temporarily ceased its operation since 2008.

PPIPC is engaged in real estate development. PPIPC was registered with the SEC on March 7, 1996. PPIPC is also registered with the Housing and Land Use Regulatory Board (HLURB) under Executive Order No. 648 and was granted to sell parcels of land on the Group's project, the Phoenix Petroleum Industrial Park (the Park).

SPTT was registered with the SEC 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. It does not carry any inventory at any given time.

CSC was 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.

BMI was registered with the SEC on March 7, 2000 to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines. Aside from international bunkering, BMI also ventures into hauling of marine fuel and petroleum products for major oil companies.

MI, which was registered with the SEC on December 26, 1957 and whose corporate life was approved to be extended for another 50 years by the SEC on May 6, 2008, 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.

PNX – Chelsea was 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. As of December 31, 2012, PNX - Chelsea has not yet started commercial operations.

CSMMSC was incorporated on March 30, 2012 to carry on 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.

FTC was incorporated on April 8, 2013 and started commercial operations on November 8, 2013. It 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 to 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.

NPMSC was incorporated on January 30, 2013 to engage 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. NPMSC started commercial operations on June 10, 2013.

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 Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The registered office of PGMI, CSC, BMI, MI and PNX – Chelsea, which is also their principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

PPIPC's registered office is located at 4th Floor, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City and its principal place of business is located at 26th Floor, The Fort Legend Tower, 3rd Avenue corner 31st Street, The Fort Global City, Taguig City.

The registered office of SPTT, which is also its principal place of business, is located at Units 113 and 115 Subic International Hotel, Alpha Building, Rizal Highway, Subic Bay Freeport Zone, Zambales.

The registered address of CSMMSC and FTC, which is also their principal place of business, is located at the 26/F, Fort Legend Towers, 3rd Ave. corner 31st St., Bonifacio Global City, Taguig City.

The registered office of NPMSC, which is also its principal place of business, is located at 2/F Harbor Centre II Bldg., Railroad and Delgado Sts., South Harbor, Port Area, Manila.

1.3 Acquisition of CSC

On September 6, 2012, CSC became a wholly owned subsidiary of the Parent Company upon the approval of the Parent Company's stockholders of the acquisition of the 100% of CSC's outstanding shares from Udenna Management Resources Corp. (UMRC), a related party under common ownership. The acquisition was initially approved by the Parent Company's Board of Directors (BOD) on July 6, 2012.

1.4 Approval of Consolidated Financial Statements

The financial statements of the Group as of and for the year ended December 31, 2013 (including the comparatives as of and for the years ended December 31, 2012 and 2011) were authorized for issue by the Parent Company's President and Chief Executive Officer on February 8, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

The Group presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

The Group's adoption of PAS 19 (Revised), *Employee* Benefits, resulted in material retrospective restatements on certain accounts as of December 31, 2012 and 2011 [see Note 2.2(a)(ii)]. Accordingly, the Group presented a third consolidated statement of financial position as of December 31, 2011 without the related notes, except for disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2013 that are Relevant to the Group

In 2013, the Group adopted for the first time the following new PFRS and revisions, amendments and improvements thereto that are relevant to the Group and effective for consolidated financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 10	:	Consolidated Financial Statements
PFRS 11	:	Joint Arrangements
PFRS 12	:	Disclosure of Interests in Other Entities
PAS 27 (Revised)	:	Separate Financial Statements
PAS 28 (Revised)	:	Investments in Associate and Joint Venture
PFRS 10, 11 and PFRS 12 (Amendment)	:	Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10, 11 and 12

PFRS 13	:	Fair Value Measurement
Annual Improvements	:	Annual Improvements to PFRS (2009-2011 Cycle)

Discussed below and in the succeeding pages are the relevant information about these amended standards.

(i) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment has been applied retrospectively; hence, the presentation of other comprehensive income has been modified to reflect the changes.

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

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all actuarial gains and losses arising in the reporting period;

- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Group has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative amounts disclosed in prior years and adjusted the cumulative effect of the changes against the 2012 and 2011 balances of the affected equity components as shown below.

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in liabilities:			
Other non-current liabilities	(P 344,755,293)	(P 12,102,743)	(P 356,858,036)
Deferred tax liabilities – net	(114,004,950)	8,197,426	(105,807,524)
Net decrease in equity		(P 3,905,317)	
Changes in components of equity:			
Revaluation reserves, net of tax	P 294,152,102	(P 11,729,072)	P 282,423,030
Retained earnings	1,852,093,238	7,823,755	1,859,916,993
Net decrease in equity		(P 3,905,317)	

	December 31, 2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in liabilities:			
Other non-current liabilities	(P 216,689,055)	P 450,859	(P 216,238,196)
Deferred tax liabilities – net	(8,917,909)	2,983,865	(5,934,044)
Net increase in equity		P 3,434,724	
Changes in components of equity:			
Revaluation reserves, net of tax	P 73,957,965	(P 2,414,314)	P 71,543,651
Retained earnings	1,542,110,417	5,849,038	1,547,959,455
Net increase in equity		P 3,434,724	

The effect of the adoption of PAS 19 (Revised) on the 2012 and 2011 consolidated statements of comprehensive income is presented below.

	2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Selling and administrative expenses	P 1,475,913,877	(P 2,252,271)	P 1,473,661,606
Finance costs	518,221,415	1,499,078	519,720,493
Tax expense	21,095,072	(1,221,524)	19,873,548
Net decrease in net profit	P 2,015,230,364	(P 1,974,717)	P 2,013,255,647
Changes in other comprehensive income:			
Remeasurements on retirement benefit obligation	P -	(P 13,306,797)	(P 13,306,797)
Tax expense	(99,542,130)	3,992,039	(95,550,091)
	(P 99,542,130)	(P 9,314,758)	(P 108,856,888)

	2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Selling and administrative expenses	P 1,253,550,743	(P 1,348,129)	P 1,252,202,614
Finance costs	346,537,077	1,431,329	347,968,406
Tax expense	42,409,094	(1,249,081)	41,160,013
Net decrease in net profit	P 1,642,496,914	(P 1,165,881)	P 1,641,331,033
Changes in other comprehensive income:			
Remeasurements on retirement benefit obligation	P -	(P 166,617)	(P 166,617)
Tax income	16,779,443	49,985	16,829,428
	P 16,779,443	(P 116,632)	P 16,662,811

The adoption of PAS 19 (Revised) have the following effects on the Group's consolidated statements of cash flows for the years ended December 31, 2012 and 2011:

	2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Profit before tax	P 646,829,165	P 24,354,535	P 671,183,700
Increase in other non-current liabilities	248,294,411	(24,354,535)	223,939,876

	2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Profit before tax	P 598,955,391	(P 83,200)	P 598,872,191
Increase in other non-current liabilities	91,708,119	83,200	91,791,319

The retrospective restatements caused an increase in the basic and diluted earnings per share in 2012, from P0.46 to P0.48, after adjustment for stock dividends (see Note 27). The adoption of PAS 19 (Revised) did not affect the basic and diluted earnings per share in 2011.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. This amendment did not have a significant impact on the Group's consolidated financial statements as the Group is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements.

(iv) Consolidation, Joint Arrangements, Associates and Disclosures

In 2013, the Group has adopted the following consolidation standards that are relevant to the Group and effective as of January 1, 2013:

- PFRS 10 (Amendment), *Consolidated Financial Statements*, changes the definition of control focusing on three elements which determines whether the investor has control over the investee such as the (a) power over the investee, (b) exposure or rights to variable returns from involvement with the investee; and (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining controls when this is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.

- PFRS 11 (Amendment), *Joint Arrangements*, deals with how a joint arrangement is classified and accounted for based on the rights and obligations of the parties to the joint arrangement by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. The option of using proportionate consolidation for arrangement classified as jointly controlled entities under the previous standard has been eliminated. This new standard now requires the use of equity method in accounting for arrangement classified as joint venture.

- PFRS 12 (Amendment), *Disclosures of Interest in Other Entities*, integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosure about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised), *Separate Financial Statements*, deals with the requirements solely to separate financial statements while PAS 28 (revised), *Investments in Associates and Joint Ventures*, includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method.

Subsequent to the issuance of these standards, amendments to PFRS 10, PFRS 11 and PFRS 12 were issued to clarify certain transitional guidance for the first-time application of the standards. The guidance clarifies that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirements to present comparatives for disclosure relating to unconsolidated structure entities for any period before the first annual period for which PFRS 12 is applied.

The Group has evaluated the various facts and circumstances related to its interests in other entities and have determined that the adoption of the foregoing standards had no material impact on the amounts recognized in the consolidated financial statements.

(v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRSs require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. The amendment applies prospectively from annual period beginning January 1, 2013; hence, disclosure requirements need not be presented in the comparative information in the first year of operation. The application of this new standard had no significant impact on the amounts recognized in the consolidated financial statements.

(vi) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information.* The amendment clarifies that a statement of financial position at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosures of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position are not required to be presented.

Consequent to the Group's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior years' consolidated financial statements, the Group has presented a third consolidated statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8.

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment.* The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Group's consolidated financial statements since it has been recognizing those servicing equipment in accordance with the recognition criteria under PAS 16.

(c) PAS 32 (Amendment), *Financial Instruments: Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Group's consolidated financial statements as it did not make any distributions to holders of equity instruments.

(b) *Effective in 2013 that are not Relevant to the Group*

The following amendments and interpretation to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Group's consolidated financial statements:

Annual Improvements		
2009-2011 Cycle		
PAS 34 (Amendment)	:	Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities
PFRS 1 (Amendments)	:	First-time Adoption of PFRS – Government Loans, and Repeated Application of PFRS 1 and Borrowing Cost
Philippine Interpretation International Financial Reporting Interpretation Committee 20	:	Stripping Costs in the Production Phase of a Surface Mine

(c) *Effective Subsequent to 2013 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

(i) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans - Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on the Group's consolidated financial statements.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

(iii) PAS 36 (Amendment), *Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements.

(iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement -Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have impact on the consolidated financial statements.

(v) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 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 arrangement, does not require separation from the host contract.

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

In November 2013, the IASB has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and 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. The amendment also now 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 in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS 9 and PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model

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

(vi) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b) PAS 24 (Amendment), *Related Party Disclosures.* The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the consolidated financial statements, and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

(c) PFRS 13 (Amendment), *Fair Value Measurement.* The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvement to PFRS (2011-2013 Cycle)

PFRS 13 (Amendment), *Fair Value Measurement.* The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

2.3 Basis of Consolidation

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

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

The Parent Company accounts for its investments in subsidiaries and an associate as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Parent Company has control. The Parent Company controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Parent Company obtains control until such time that such control ceases.

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

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

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

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

(b) Investment in an Associate

Associate is an entity over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint venture. Investments in associate are initially recognized at cost and subsequently accounted for using the equity method.

2.4 Financial Assets

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

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

Currently, the financial assets category relevant to the Group is loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

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

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

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

2.5 Inventories

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

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

2.6 Land Held for Sale and Land Development Costs

Land held for sale and land development costs are valued at the lower of cost and net realizable value. Land held for sale and land development costs includes the cost of land and actual development costs incurred up to the end of reporting period. Interest incurred during the development of the project is capitalized (see Note 2.19).

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

2.7 Prepayments and Other Current Assets

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

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

2.8 Land Held For Future Development

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

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

2.9 Property and Equipment

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

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

Following initial recognition, tankers are carried at revalued amounts less any subsequent accumulated depreciation and any accumulated impairment losses.

Revalued amounts represent fair values determined by external professional valuers unless market-based factors indicate immediate impairment risk. Fair value is determined on the replacement cost of an asset with an equally satisfactorily substitute asset, which is normally derived from the current acquisition cost of a similar asset, new or used, or of an equivalent productive capacity or service potential. In estimating the fair value of the properties, it takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use.

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

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

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

Tankers	30 years
Buildings, depot and pier facilities	5-25 years
Vessel equipment	5 years
Transportation and other equipment	1-10 years
Hauling and heavy equipment	1-5 years
Gasoline station equipment	1-5 years
Office furniture and equipment	1-3 years

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

Hauling and heavy equipment held under finance lease agreements (see Note 2.15) are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of lease, if shorter.

Construction in progress represents properties under construction and on-going major repair works and is stated at cost. This includes cost of construction and applicable borrowing costs (see Note 2.19). The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

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

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

2.10 Drydocking Costs

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

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

The carrying amount of drydocking costs, presented as part of the Other Non-current Asset account in the consolidated statement of financial position, is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.17).

2.11 Financial Liabilities

Financial liabilities, which include interest-bearing loans and borrowings, trade and other payables (excluding income tax payable), due to related parties and security deposits (presented under Other Non-Current Liabilities in the consolidated statement of financial position), are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liability are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of comprehensive income.

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.19). All other interest related charges are recognized as an expense in the consolidated statement of comprehensive income under the caption Finance Costs.

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

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

Obligations under finance lease (included as part of Interest-bearing Loans and Borrowings) are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of minimum lease payments, at the inception of the lease (see Notes 2.15 and 29.5).

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

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

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.12 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

2.13 Business Combinations

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.17).

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

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

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

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

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

Under the pooling-of-interest method, similar accounts of the entities are combined on a line-by-line basis except for the equity accounts which were offset with the new shares issued by the new entity in which the difference between the net assets received and the amount of the consideration issued (shares and cash) is accounted for as Other Reserves.

2.14 Revenue and Expense Recognition

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

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

(a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, i.e. when the customer has acknowledged delivery of goods or when the customer has taken undisputed delivery of goods.

(b) *Charter fees* – Revenue, which consists mainly of charter income arising from the charter hire of its tankers, is recognized based on the type of charter arrangement entered into, either under a time charter (TC) or a continuing voyage charter (CVC). Under a TC, revenue is recognized based on the terms of the contract [see Note 3.1(d)]. Under a CVC, revenue is recognized upon completion of the voyage; however, appropriate accrual of revenue is made at the end of the reporting period.

(c) *Fuel service and other revenues, port revenues and storage income* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. This account includes franchise income, which has minimal amount. In addition, this includes revenue arising from port and cargo handling services.

(d) *Interest income* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

(e) *Rent income* – Revenue is recognized on a straight-line basis over the lease term (see Note 2.15).

Cost and expenses are recognized in the profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.19).

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

2.15 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

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

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

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

(b) Group as Lessor

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

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

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

2.16 Foreign Currency Transactions and Translations

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

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.17 Impairment of Non-financial Assets

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

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

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

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss, except impairment loss on goodwill (see Note 2.13), is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.18 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

(a) Defined Benefit Plan

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

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bonds as published by Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs or Finance Income account in the consolidated statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment.

(b) Defined Contribution Plans

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

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) Profit-sharing and Bonus Plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) Compensated Absences

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

2.19 Borrowing Costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.20 Income Taxes

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for land held for sale and land development costs, the carrying amount of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is when the land held for sale and development costs are held within the business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.21 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Group's retirement plan.

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

2.22 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's BOD and management committee responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 28 which represent the main products and services provided by the Group.

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

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

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

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

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

2.23 Equity

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

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

Revaluation reserves arise from the actuarial gains or losses on the remeasurements of post-employment defined benefit plan and gains and losses arising from the revaluation of the Group's tankers, net of applicable taxes.

Other reserves pertain to the difference between the Parent Company's cost of investment and the net assets of CSC acquired accounted for under the pooling-of-interest method.

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

2.24 Earnings per Share

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

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

2.25 Events after the End of the Reporting Period

Any post-year-end event that provides additional information about the Group's position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Distinguishing Operating and Finance Leases

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

(b) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.12 and relevant disclosure is presented in Note 29.

(c) Qualifying Assets on Borrowing Costs

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

(d) Revenue Recognition for TC Arrangements

In determining the appropriate method to use in recognizing the Group's revenue from TC, management considers the following criteria: (1) whether the fulfilment of the arrangement is dependent on the use of a specific vessel; and, (2) whether the arrangement conveys a right to use the vessel. Management determined that if both criteria are met, the revenue should be recognized using the straight-line method over the term of the contract (see Note 2.14).

(e) Functional Currency

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

3.2 Key Sources of Estimation Uncertainty

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

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

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

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7. The carrying value of due from related parties is shown in Note 25.4. The Group has determined that no impairment loss on Due from Related Parties account is recognized in 2013, 2012 and 2011.

(b) Determining Net Realizable Value of Inventories

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

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

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

(d) Estimating Useful Lives of Property and Equipment and Drydocking Costs

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

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

(e) Fair Value Measurement of Tankers

In determining the fair value of the Group's tankers, the Group engages the services of professional and independent appraisers. Fair value is determined on the replacement cost of an asset with an equally satisfactorily substitute asset which is normally derived from the current acquisition cost of a similar asset, new or used, or of an equivalent productive capacity or service potential. In estimating the fair value of the properties, it takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g. size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and value of the assets.

Based on management's review of the recorded fair value of the tankers as of December 31, 2013 and 2012, such fair value reasonably approximates the fair value based on the latest appraisal report or of those dates as determined by an independent appraisers (see Notes 5.4 and 12.3).

(f) Determining Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2013 and 2012 will be fully utilized in the coming years. The carrying value of deferred tax assets as of December 31, 2013 and 2012 is disclosed in Note 24.

(g) Estimating Liability for Land Development

Obligations to complete development of real estate are based on actual costs and project estimates of contractors and Group's technical staff. These costs are reviewed at least annually and are updated if expectations differ from previous estimates. Liability to complete the project for sold units included in the determination of cost of sales amounting to P0.1 million as of December 31, 2013 and 2012, are presented as part of accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 17).

(h) Valuation of Post-employment Defined Benefit

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22 and include, among others, discount rates and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 22.2.

(i) Estimating Development Costs

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

(j) Impairment of Non-Financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to discount such. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.17). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on the Group's non-financial assets in 2013, 2012 and 2011.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group's risk management is coordinated with 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 in the succeeding pages.

4.1 Market Risk

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk which result from both its operating, 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 importation, which are primarily denominated in U.S. dollars. The liability covering the importation is covered by letter of credits which is subsequently closed to Philippine peso trusts receipts (TRs). Further, the Group has several U.S. dollar loans from certain banks which were used to finance its capital expenditures (see Note 16). 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 liabilities, translated into Philippine pesos at the closing rate follow:

	2013	2012
Financial assets	**P 1,174,762,469**	P 224,957,030
Financial liabilities	**(1,465,688,449)**	(2,107,635,570)
Exposure	**(P 290,925,980)**	(P 1,882,696,540)

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

	2013	2012
Reasonably possible change in rate	**16.7%**	18.0%
Effect in profit before tax	**P 48,584,639**	P 338,885,377
Effect in equity after tax	**34,009,247**	237,219,764

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 December 31, 2013 and 2012, the Group is exposed to changes in market interest rates through its cash and cash equivalents and bank borrowings, which are subject to variable interest rates (see Notes 6 and 16). All other financial assets and liabilities have fixed rates.

Cash in banks are tested on a reasonably possible change of +/-1.1% and +/- 1.4% in 2013 and 2012, respectively. Banks loans subject to variable interest rates are tested on a reasonably possible change of +/-1.67% and +/- 1.82% for Philippine peso and +/-0.69% and +/- 0.88% for U.S. dollar in 2013 and 2012, respectively. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous 12 months estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of the 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 +/-P85.9 million and +/- P96.7 million for the years ended December 31, 2013 and 2012, 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.

4.2 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 on the face of the consolidated statements of financial position (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized below.

	Notes	**2013**	2012
Cash and cash equivalents	6	**P 357,220,520**	P 438,510,937
Trade and other receivables – net	7	**7,343,793,926**	3,557,002,879
Due from related parties	25.4	**2,747,994**	8,300,000
Restricted deposits	10, 14	**96,683,441**	83,946,941
Refundable rental deposits and deferred minimum lease payments	14	**215,505,911**	101,580,768
		P 8,015,951,792	P4.189,341,525

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

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

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

	2013	2012
Not more than one month	**P 182,306,369**	P 49,229,451
More than one month but not more than two months	**149,532,251**	59,529,182
More than two months but not more than six months	**120,856,868**	26,448,069
More than six months but not more than one year	**69,157,737**	54,931,311
More than one year	**45,598,603**	37,288,853
	P 567,451,828	P 227,426,866

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

4.3 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 period. Excess cash are invested in time deposits. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As of December 31, 2013, the Group's liabilities have contractual maturities which are summarized as follows:

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 5 years
Interest-bearing loans and borrowings	P6,050,573,611	P2,726,331,756	P6,007,722,903
Trade and other payables (excluding income tax payable)	1,109,068,989	451,750,258	-
Due to related parties	33,991,925	30,169,318	-
Security deposits and unearned rent	-	-	325,688,899
	P7,193,634,525	**P3,208,251,332**	**P6,333,411,802**

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

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 5 years
Interest-bearing loans and borrowings	P3,351,292,811	P 800,872,304	P5,841,294,690
Trade and other payables (excluding income tax payable)	636,433,027	903,350,245	-
Due to related parties	45,299,380	40,252,365	-
Security deposits and unearned rent	-	-	319,422,536
	P4,033,025,218	P1,744,474,914	P6,160,717,226

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

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

5.1 Carrying Amounts and Fair Values by Category

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

	Notes	**2013** Carrying Values	**2013** Fair Values	2012 Carrying Values	2012 Fair Values
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	6	**P 357,220,520**	**P 357,220,520**	P 438,510,937	P 438,510,937
Trade and other receivables-net	7	**7,343,793,926**	**7,343,793,926**	3,557,002,879	3,557,002,879
Due from related parties	25.4	**2,747,994**	**2,747,994**	8,300,000	8,300,000
Restricted deposits	10, 14	**96,683,441**	**96,683,441**	83,946,941	83,946,941
Refundable rental deposits and deferred minimum lease payments	14	**215,505,911**	**215,505,911**	101,580,768	101,580,768
		P 8,015,951,792	**P 8,015,951,792**	P 4,189,341,525	P 4,189,341,525
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	16	**P 13,751,738,817**	**P 13,751,738,817**	P 9,915,321,797	P 9,915,321,797
Trade and other payables*	17	**1,560,819,247**	**1,560,819,247**	1,539,783,272	1,539,783,272
Due to related parties	25.4	**64,161,243**	**64,161,243**	85,551,745	85,551,745
Security deposits and unearned rent	18	**325,688,899**	**325,688,899**	319,422,536	319,422,536
		P 15,702,408,206	**P 15,702,408,206**	P 11,860,079,350	P 11,860,079,350

**Excludes income tax payable*

See Notes 2.4 and 2.11 for a description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of non-financial assets which are measured at fair value on a recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
(b) 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,
(c) 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.

5.3 Fair Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below and in the next page summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the 2013 consolidated statement of financial position but for which fair value is disclosed.

	Notes	Level 1	Level 2	Level 3	Total
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	6	P 357,220,520	P -	P -	P 357,220,520
Trade and other receivables - net	7	-	-	7,343,793,926	7,343,793,926
Due from related parties	25.4	-	-	2,747,994	2,747,994
Restricted deposits	10, 14	-	-	96,683,441	96,683,441
Refundable rental deposits and deferred minimum lease payments	14	-	-	215,505,911	215,505,911
		P 357,220,520	**P -**	**P7,658,731,272**	**P8,015,951,792**

	Notes	Level 1	Level 2	Level 3	Total
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing loans					
and borrowings	16	P -	P -	P 13,751,738,817	P 13,751,738,817
Trade and other payables	17	-	-	1,560,819,247	1,560,819,247
Due to related parties	25.4	-	-	64,161,243	64,161,243
Security deposits and					
unearned rent	18	-	-	325,688,899	325,688,899
		P -	P -	**P 15,702,408,206**	**P 15,702,408,206**

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

The fair values of the financial assets and financial liabilities included in Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value 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 rely as little as possible on entity specific estimates. Since not all significant inputs required to determine the fair value of the other instruments not included in Level 1 are observable, these are included in Level 3.

5.4 Fair Value Measurements for Non-financial Assets

a) Determining Fair Value of Tankers

The table below shows the Level within the hierarchy of non-financial asset measured at fair value on a recurring basis as of December 31, 2013.

	Note	Level 1	Level 2	Level 3	Total
Property and Equipment					
Tankers	12	P -	P -	P 2,692,719,034	P2,692,719,034

The fair value of the Group's tankers (see Note 12.3) was determined based on the appraisal report of professional and independent appraisers. Management obtains appraisal reports on its tanker from independent appraisers at least every two years. The latest appraisal report obtained covers the year ended December 31, 2012.

Fair value was determined based on the replacement cost of an asset with an equally satisfactorily substitute asset, which is normally derived from the current acquisition cost of a similar asset, new or used, or of an equivalent productive capacity or service potential. In estimating the fair value of tankers, the highest and best use of the tanker is its current use.

b) Other Fair Value Information

The reconciliation of the carrying amount of tankers included in Level 3 is presented in Note 12.

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2013.

5.5 Offsetting of Financial Assets and Financial Liabilities

The Group is not setting off financial instruments and does not have relevant offsetting arrangements as of December 31, 2013 and 2012.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2013	2012
Cash on hand	**P 7,731,306**	P 5,104,365
Cash in banks	**249,585,435**	293,191,196
Revolving fund	**21,213,984**	20,000
Short-term placements	**78,689,795**	140,195,376
	P 357,220,520	P 438,510,937

Cash accounts with the banks generally earn interest based on daily bank deposit rates ranging from 0.03% to 3.00% per annum in 2013 and 2012. Short-term placements have maturity ranging from 7 to 90 days and earn effective interest ranging from 2.1% to 4.8% per annum in 2013 and 2012. Interest income earned amounted to P8.5 million, P9.4 million and P7.8 million in 2013, 2012 and 2011, respectively, and is included as part of Finance Income in the statements of comprehensive income (see Note 21.2).

The balances of the cash on hand and in banks as of December 31, 2013 and 2012 exclude restricted cash amounting to P96.7 million and P83.9 million, respectively, which are shown as Restricted Deposits account (see Note 10) and restricted time deposits under Other Non-current Assets (see Note 14) in the consolidated statements of financial position. Such amounts are not available for the general use of the Group under the loan agreement (see Note 16.3).

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Note	**2013**	2012
Trade receivables:			
Third parties		**P6,323,073,299**	P 2,561,932,974
Related parties	25.1	**37,334,222**	88,444,125
		6,360,407,521	2,650,377,099
Advances to suppliers		**926,304,898**	881,428,714
Non-trade receivables		**237,344,364**	189,816,532
Advances subject to liquidation		**14,793,393**	10,648,302
Other receivables		**49,257,584**	51,087,064
		7,588,107,760	3,783,357,711
Allowance for impairment		**(244,313,834)**	(226,354,832)
		P7,343,793,926	P 3,557,002,879

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain trade and other receivables, which are due from customers, were found to be impaired; hence, adequate amount of allowance for impairment has been recorded as of December 31, 2013 and 2012. Impairment losses amounted to P18.0 million, P37.9 million and P27.3 million in 2013, 2012 and 2011, respectively, and are presented as part of Finance Costs under the Other Income (Charges) account in the consolidated statements of comprehensive income (see Note 21.1).

A reconciliation of the allowance for impairment at the beginning and end of 2013 and 2012 is shown below:

	Note	**2013**	2012
Balance at beginning of year		**P 226,354,832**	P 188,503,775
Impairment loss during the year	21.1	**17,959,002**	37,851,057
Balance at end of year		**P 244,313,834**	P 226,354,832

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

Other Receivables as of December 31, 2013 and 2012 include P23.8 million partial claims from an insurance company related to an incident encountered by one of the Group's vessels. The amount represents the costs of towing and repairs incurred for the vessel, net of the applicable deductible clause. In addition, this account includes P18.2 million and P12.3 million as of December 31, 2013 and 2012, respectively, worth of reimbursable costs incurred by the Group in relation to its TC agreement with certain third party.

Certain trade receivables amounting to P15.5 million and P43.4 million as of December 31, 2013 and 2012, respectively, were used as collateral to the Group's interest-bearing loans and borrowings [see Notes 16.3(a), 16.3(b) and 16.3(e)].

8. INVENTORIES

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

	2013	2012
Fuel	**P 3,589,175,766**	P 3,500,956,712
Lubricants	**223,353,772**	187,791,452
Others	**3,135**	11,512
	P 3,812,532,673	P 3,688,759,676

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying amount of P3,589.2 million and P2,838.9 million as of December 31, 2013 and 2012, respectively, have been released to the Group in trust for the bank. The Group is accountable to the bank for the trusteed inventories or their sales proceeds (see Note 16.1). There were no inventory write-down in all of the years presented.

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

9. LAND HELD FOR SALE AND LAND DEVELOPMENT COSTS

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

	2013	2012
Land held for sale	**P 483,927,707**	P 483,927,707
Land development costs	**19,744,767**	18,102,852
	P 503,672,474	P 502,030,559

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

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

10. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various banking credit facilities covered by hold-out agreements (see Notes 6, 16.1 and 16.3) amounting to P95.4 million and P82.7 million as of December 31, 2013 and 2012, respectively. As such, these are restricted as to withdrawals. The proceeds from availment of the banking credit facilities by the Group are used for the purpose of purchasing fuel and lubricant supplies (see Note 16.1). Interest rates for this type of deposit range from 2.40% to 5.975% per annum for all the years presented.

11. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account as of December 31 is shown below:

	Note	2013	2012
Creditable withholding tax		**P 174,300,564**	P 96,343,991
Prepayments		**167,721,208**	109,010,019
Supplies		**144,038,688**	67,601,838
Others	29.8	**3,852,717**	9,404,674
		P 489,913,177	P 282,360,522

12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2013 and 2012 are shown below.

	Buildings, Depot and Pier Facilities	Leasehold and Land Improvements	Gasoline Station Equipment	Office Furniture and Equipment	Hauling and Heavy Equipment	Transportation and Other Equipment	Tankers	Vessel Equipment	Land	Construction in Progress	Total
December 31, 2013											
Cost	P 2,940,015,956	P 68,286,414	P1,349,077,762	P 76,438,965	P 547,121,336	P 66,714,204	P3,102,998,637	P 132,261,485	P 358,163,195	P 1,643,322,006	P 10,284,399,960
Accumulated depreciation and amortization	(633,529,168)	(36,606,594)	(189,963,789)	(56,019,329)	(228,201,903)	(63,532,510)	(410,279,603)	(37,776,595)	-	-	(1,655,909,491)
Net carrying amount	**P 2,306,486,788**	**P 31,679,820**	**P 1,159,113,973**	**P 20,419,636**	**P 318,919,433**	**P 3,181,694**	**P 2,692,719,034**	**P 94,484,890**	**P 358,163,195**	**P 1,643,322,006**	**P 8,628,490,469**
December 31, 2012											
Cost	P 3,084,915,381	P 55,656,133	P 407,092,708	P 75,462,927	P 338,114,309	P 63,195,010	P2,935,833,849	P 109,371,360	P 314,817,213	P 826,164,543	P 8,210,623,433
Accumulated depreciation and amortization	(488,342,896)	(34,646,602)	(90,255,972)	(59,479,148)	(161,728,911)	(58,709,091)	(306,045,202)	(12,629,793)	-	-	(1,211,837,615)
Net carrying amount	P 2,596,572,485	P 21,009,531	P 316,836,736	P 15,983,779	P 176,385,398	P 4,485,919	P 2,629,788,647	P 96,741,567	P 314,817,213	P 826,164,543	P 6,998,785,818
January 1, 2012											
Cost	P 2,448,096,169	P 55,242,472	P 343,448,606	P 64,838,151	P 188,602,020	P 59,218,964	P1,573,097,981	P 8,144,218	P 294,582,257	P 1,369,210,820	P 6,404,481,658
Accumulated depreciation and amortization	(287,466,953)	(26,720,521)	(84,390,166)	(51,227,279)	(115,771,597)	(50,707,700)	(214,235,251)	(1,691,418)	-	-	(832,210,885)
Net carrying amount	P 2,160,629,216	P 28,521,951	P 259,058,440	P 13,610,872	P 72,830,423	P 8,511,264	P1,358,862,730	P 6,452,800	P 294,582,257	P 1,369,210,820	P 5,572,270,773

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012 of property and equipment is shown below.

	Buildings, Depot and Pier Facilities	Leasehold and Land Improvements	Gasoline Station Equipment	Office Furniture and Equipment	Hauling and Heavy Equipment	Transportation and Other Equipment	Tankers	Vessel Equipment	Land	Construction in Progress	Total
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 2,596,572,485	P 21,009,531	P 316,836,736	P 15,983,779	P 176,385,398	P 4,485,919	P 2,629,788,647	P 96,741,567	P 314,817,213	P 826,164,543	P 6,998,785,818
Additions	183,013,627	15,921,442	111,480,716	13,553,509	136,021,056	5,279,959	160,317,430	22,890,125	43,345,982	1,433,496,226	2,125,320,072
Revaluation increment	-	-	-	-	-	-	6,847,358	-	-	-	6,847,358
Transfers	(324,753,648)	3,092,242	842,451,561	13,076,749	82,471,859	-	-	-	-	(616,338,763)	-
Cost of asset disposed	(3,159,404)	(6,383,403)	(11,947,223)	(25,654,220)	(9,485,888)	(1,760,765)	-	-	-	-	(58,390,903)
Accumulated depreciation of asset disposed	1,332,633	6,379,948	10,536,181	12,784,339	8,874,799	-	-	-	-	-	39,907,900
Depreciation and amortization charges for the year	(146,518,905)	(8,339,940)	(110,243,998)	(9,324,520)	(75,347,791)	(4,823,419)	(104,234,401)	(25,146,802)	-	-	(483,979,776)
Balance at December 31, 2013, net of accumulated depreciation and amortization	**P 2,306,486,788**	**P 31,679,820**	**P 1,159,113,973**	**P 20,419,636**	**P 318,919,433**	**P 3,181,694**	**P 2,692,719,034**	**P 94,484,890**	**P 358,163,195**	**P 1,643,322,006**	**P 8,628,490,469**
Balance at January 1, 2012, net of accumulated depreciation and amortization	P 2,160,629,216	P 28,521,951	P 259,058,440	P 13,610,872	P 72,830,423	P 8,511,264	P 1,358,862,730	P 6,452,800	P 294,582,257	P 1,369,210,820	P 5,572,270,773
Additions	277,171,382	916,669	64,971,675	11,202,741	56,929,002	4,395,476	136,041,924	93,530,147	30,490,875	803,220,556	1,478,870,447
Revaluation increment	-	-	-	-	-	-	331,807,097	-	-	-	331,807,097
Transfers	359,647,830	(503,008)	(1,137,573)	(299,581)	96,174,777	56,465	894,886,847	7,696,995	(10,255,919)	(1,346,266,833)	-
Cost of asset disposed	-	-	(190,000)	(278,384)	(3,591,490)	(475,895)	-	-	-	-	(4,535,769)
Accumulated depreciation of asset disposed		-	-	97,633	1,703,533	-	-	-	-	-	1,801,166
Depreciation and amortization charges for the year	(200,875,943)	(7,926,081)	(5,865,806)	(8,349,502)	(47,660,847)	(8,001,391)	(91,809,951)	(10,938,375)	-	-	(381,427,896)
Balance at December 31, 2012, net of accumulated depreciation and amortization	P 2,596,572,485	P 21,009,531	P 316,836,736	P 15,983,779	P 176,385,398	P 4,485,919	P 2,629,788,647	P 96,741,567	P 314,817,213	P 826,164,543	P 6,998,785,818

12.1 Acquisition of Vessel – MT Donatella

In 2013, the Group entered into a Memorandum of Agreement (MOA) with a foreign corporation for the importation of one unit of oil tank vessel (MT Donatella) from China for US$21.2 million [see Note 16.2(g)]. As of December 31, 2013, the vessel is still under construction. Since the vessel is not yet ready for use as of December 31, 2013, the contract price of the vessel, costs incurred for the major improvements made to the vessel and other incidental costs totaling P418.6 million are recognized as construction in progress and presented as part of Property and Equipment - net in the 2013 consolidated statement of financial position.

MT Donatella is used as collateral to secure the payment of interest-bearing loan obtained to finance the acquisition of the vessel [see Note 16.2(g)].

12.2 Double Hull Conversion of Vessels

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

As of December 31, 2012, MT Chelsea Resolute, MT Chelsea Denise and MT Ernesto Uno have completed their double hulling. Total costs that were capitalized as part of tanker amounted to P32.3 million, P30.3 million and P27.3 million, respectively. After the completion of the double hulling of these tankers in 2012, all of the Group's tankers are double-hulled. There was no double hulling of the Group's tankers in 2013.

12.3 Fair Value of Tankers

The Group's tankers are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses. The revaluation surplus, net of applicable deferred income taxes, is presented as part of Revaluation Reserves account in the equity section of the consolidated statements of financial position (see Note 26.5).

The information on the fair value measurement and disclosures related to the revalued tankers are presented in Note 5.4.

If the tankers were carried at cost model, the cost, accumulated depreciation and net carrying amount as of December 31 would be as follows:

	2013	2012
Cost	**P4,965,854,382**	P 2,479,523,748
Accumulated depreciation	**(648,495,535)**	(269,952,387)
	P4,317,358,847	P 2,209,571,361

12.4 Borrowing Costs

Construction in progress includes accumulated costs incurred on the various depot facilities and retail stations being constructed as part of the Group's expansion program, including capitalized borrowing costs of P71.4 million and P77.8 million as of December 31, 2013 and 2012, respectively, representing the actual borrowing costs incurred on borrowings obtained to fund the retail stations and depot facilities. The average capitalization rate used was 8.5% both in 2013 and 2012.

12.5 Collaterals

Port expansion facilities with carrying value of P192.9 million and P211.6 million as of December 31, 2013 and 2012, respectively, are used to secure the Group's installment payable with LBP [see Note 16.2(a)].

Two of the tankers of the Group with net revalued amount of P317.5 million and P331.5 million as of December 31, 2013 and 2012, respectively, are used to secure a loan with Philippine Bank of Communication (PBComm) [see Note 16.2(c)].

Certain property and equipment with an aggregate carrying value of P24.2 million and P42.5 million as of December 31, 2012, 2011 and 2010, respectively, are mortgaged with local banks [see Note 16.2(h)].

As of December 31, 2013 and 2012, certain tankers owned by the Group were used as collaterals for the interest-bearing loans from various local commercial banks (see Note 16.4).

Moreover, certain service vehicle of the Group with carrying value of P40.9 million and P18.4 million as of December 31, 2013 and 2012, respectively, was used as collateral for mortgage payable (see Note 16.5).

12.6 Finance Lease

The carrying amount of hauling and heavy equipment held under finance lease amounted to P23.7 million and P25.5 million as of December 31, 2013 and 2012, respectively (see Note 16.6).

12.7 Depreciation

The amount of depreciation and amortization is allocated as follows:

	Notes	**2013**	2012	2011
Cost of services	19.2	**P 149,726,182**	P 122,984,227	P 78,484,830
Selling and administrative expenses		**334,253,594**	258,443,669	203,427,098
	20	**P 483,979,776**	P 381,427,896	P 281,911,928

As of December 31, 2013 and 2012, the cost of fully-depreciated property and equipment still used in operations amounted to P146.7 million and P81.6 million, respectively.

13. LAND HELD FOR FUTURE DEVELOPMENT

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

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

14. OTHER NON-CURRENT ASSETS

The composition of this account as of December 31 is shown below:

	Notes	2013	2012
Refundable rental deposits	25.3	**P 180,951,286**	P 69,234,807
Drydocking costs		**46,588,245**	64,433,228
Deferred minimum lease payments		**34,554,625**	32,345,961
Restricted time deposits	6	**1,263,795**	1,252,912
Others		**6,857,099**	540,440
		P 270,215,050	P 167,807,348

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

Restricted time deposits represent cash deposited with a local bank as an environmental trust fund set aside in compliance with the requirements of the Department of Environment and Natural Resources.

Presented below is a reconciliation of the carrying amount at the beginning and end of 2013 and 2012 of drydocking costs.

	Notes	2013	2012
Balance at beginning of year		**P 64,433,228**	P 31,556,905
Additions		**26,597,993**	57,263,996
Amortization during the year	19.2, 20	**(44,420,301)**	(24,387,673)
Disposal		**(22,675)**	-
		P 46,588,245	P 64,433,228

Amortization pertaining to drydocking costs is presented as part of Depreciation and Amortization account under Cost of Sales and Services account in the consolidated statements of comprehensive income (see Note 19.2).

Drydocking costs are being amortized over two years or until the occurrence of the next drydocking, whichever comes earlier.

15. GOODWILL

Goodwill amounting to P84.5 million as of December 31, 2013 and 2012, represents the excess of acquisition cost over the Group's share in the fair value of identifiable net assets of the acquired subsidiaries at the date of the acquisition. In 2012, the Parent Company assessed that the goodwill pertaining with PGMI is impaired, hence, impairment loss amounting to P1.3 million was recognized and is presented as part of Others under Other Income (Charges) account in the 2012 consolidated statement of comprehensive income.

16. INTEREST-BEARING LOANS AND BORROWINGS

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

	2013	2012
Current:		
Liabilities under letters of credits and trust receipts	**P6,777,195,674**	P 2,838,941,626
Installment and notes payable	**1,104,979,911**	927,181,333
Term loans	**255,841,741**	297,156,898
Bank loans	**55,923,184**	41,696,363
Mortgage payable	**5,729,784**	6,692,616
Obligations under finance lease	**7,559,190**	7,678,316
	P8,207,229,484	P 4,119,347,152
Non-current:		
Installment and notes payable	**P4,678,622,549**	P 5,140,949,740
Term loans	**799,094,377**	587,482,550
Bank loans	**50,012,446**	37,384,848
Mortgage payable	**3,553,774**	9,842,589
Obligations under finance lease	**13,226,187**	20,314,918
	P5,544,509,333	P 5,795,974,645

16.1 Liabilities Under Letters of Credits and Trust Receipts

The Group avails of letters of credit (LC) and TR lines with local banks to finance its purchases of inventories (see Note 8). These short-term trust receipts bear interests based on prevailing market interest rates at an average of 6.50% per annum in 2013, 2012 and 2011.

The Group is required by the banks to maintain certain collaterals for the credit line facility provided to the Group for working capital requirements. The collaterals are in the form of compensating deposits and a surety of a stockholder (see Notes 10 and 25.6).

16.2 Installment and Notes Payable

(a) Installment Loan with LBP

On April 16, 2010, the Group availed the P580.0 million loan with LBP. The loan with LBP was used to refinance the installment payable with PHINMA Group via take-out of the outstanding installment payable to PHINMA Group. The refinanced installment payable is payable for seven years with one year grace period on principal and bears an interest rate based on the prevailing LBP rate at the time of availment subject to quarterly repricing with reference to a three month PDST-F rate plus minimum spread of 2.5%. The installment payable with LBP is secured by the Group's parcel of land with carrying value of P326.7 million and P320.2 million as of December 31, 2013 and 2012, respectively, which is presented as part of land held for sale (see Note 9) and land held for future development (see Note 13), and port expansion facilities with carrying value of P192.9 million and P211.6 million as of December 31, 2013 and 2012, respectively, which is presented as part of buildings, depot and pier facilities (see Note 12.5).

(b) Notes Facility Agreement with BDO Group

In 2011, the Group availed of a P750.0 million clean loan under the notes facility agreement entered into with BDO Capital & Investment Corporation, Banco De Oro Unibank, Inc. (BDO), Maybank Philippines, Inc., Robinsons Bank Corporation and Banco de Oro Unibank, Inc. – Trust and Investment Group. The long-term loan amounting to P700.0 million with interest rate of 7.35% annually is payable on August 24, 2016 and the remaining P50.0 million with interest rate of 7.66% is payable on August 23, 2018.

(c) Omnibus Loan and Security Agreement (OLSA) with PBComm

On February 10, 2012, the Group entered into a loan agreement with PBComm amounting to P107.0 million to partly finance the double hulling and drydocking of a vessel owned by the Group. In February and May 2012, PBComm released the loan amounting to P65.0 million and P42.0 million, respectively. The loan is subject to annual interest rate of 9.5% and is payable in thirty-six equal monthly installments with one quarter grace period from date of each release.

The loan is secured by a chattel mortgage on two of the tankers of the Group with net book value amounting to P317.5 million and P331.5 million as of December 31, 2013 and 2012, respectively (see Note 12.5).

The loan agreement requires the Group to maintain a debt-to-equity ratio of not more than 4:1. As of December 31, 2013 and 2012, the Group has complied with its debt covenants with the bank.

(d) OLSA with BDO

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

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

In connection with the OLSA, certain advances made by certain stockholders are subordinated to the loan. Based on said agreement, the obligation of the Group to pay the stockholders' advances shall be fully subordinated, junior and subject in right of payment to the prior indefeasible payment and performance in full of the OLSA. The Group affirms that any and all obligations of the Group relative to the OLSA shall be settled first before any of its financial obligations to such shareholders' advances are paid. Accordingly, portion of the advances from shareholders are treated as non-current liabilities (see Note 25.6). In 2012, however, upon the increase in the Group's capitalization, subordination agreement was lifted by the bank in 2012.

The loan is secured by a chattel mortgage on certain tanker (MT Thelma) of the Group with a net carrying amount of P924.7 million as of December 31, 2013, and of certain tankers (MT Thelma and MT Excellence) with net revalued amount totaling P1,059.8 million as of December 31, 2012.

Related debt issuance costs amounted to P8.2 million of which P2.3 million was amortized during both 2013 and 2012, using effective interest rate of 5.02%. Amortized debt issuance costs were recognized as part of interest expense on bank loans under Finance Costs under the Other Income (Charges) account in the consolidated statements of comprehensive income (see Note 21.1). The unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

(e) Convertible Notes Facility Agreement with BDO

On July 11, 2012, the Parent Company executed a Convertible Notes Facility Agreement worth P500.0 million with warrants offering amounting to P180.0 million with BDO. The loan is subject to annual interest rate of 7.6% and is payable quarterly in arrears over its three years term. The issuance of the convertible note is part of the Group's plan to raise long-term capital, to refinance short-term debt and finance capital expenditures.

BDO is granted the option to convert all or any portion of the unpaid principal amount of the notes held by it into the conversion shares exercisable at any time upon written notice by BDO to the Parent Company specifying the time and date of the conversion. Also, BDO has the option to elect one nominee to the Parent Company's BOD which option may be exercised any time after signing date and on or before conversion date.

For and in consideration of the subscription of BDO to the convertible notes issued by the Parent Company, the latter also granted the former the right to subscribe to the warrants to be issued by the Parent Company which is convertible into common shares of the Parent Company up to the aggregate principal amount of P180.0 million. The availment of the convertible note and the issuance of the warrant were approved by the Parent Company's stockholders during a special stockholders' meeting held on September 6, 2012. The Parent Company's stockholders also authorized the execution, delivery and performance of Subscription Agreement between the Parent Company and BDO in relation to the issuance of the warrants.

The exercise price of the option to convert the note to the Parent Company's common shares and the warrant is equivalent to a determined price base plus a premium of fifteen percent. The exercise based used was the 30-day volume-weighted average price of the Parent Company's share on the PNX PM Equity HP page of Bloomberg from May 24, 2012 to July 5, 2012 which is equal to P8.3 per share. The exercise period consists of a two-year period commencing on the third anniversary date of the convertible notes issue date and expiring five years thereafter.

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

Minimum financial ratios to maintain are as follows: (i) debt to equity ratio not to exceed 3:1; (ii) current ratio not to fall below 1:1 and (iii) debt service coverage ratio not to be less than 1.5:1.

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

(f) Notes Facility Agreement with China Banking Corporation and Pentacapital Investment Corporation

On November 8, 2012, the Parent Company entered into a notes facility agreement with China Banking Corporation and Pentacapital Investment Corporation totaling P2,500.0 million. The loan is subject to a fixed annual interest rate of 7.75% which is payable in twenty quarterly payments. The need proceeds of the loan were used by the Parent Company for the roll out of the retails stations, for debt financing, to support capital expenditures and for other general corporate purposes. As of December 31, 2012, the total amount of the loan has already been drawn down.

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

Minimum financial ratios to maintain are as follows: (i) debt to equity ratio not to exceed 3:1; (ii) current ratio not to fall below 1:1 and (iii) debt service coverage ratio not to be less than 1.5:1.

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

(g) OLSA with BDO – MT Donatella

In 2013, the Group entered into a MOA with China Shipbuilding & Exports Corporation for the importation of one unit oil tank (MT Donatella) of PNX - Chelsea in the amount of US$21.2 million (see Note 12.1). In connection with the acquisition of an oil tank vessel, the Group entered into an OLSA amounting to US$14 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. In September 2013, the local bank granted the loan and released the first tranche amounting to US$4 million. The second tranche shall be availed of by the Group in 2014. The loan is payable for a period of five years in equal quarterly principal installments, with two quarter grace period, commencing after the second tranche. The loan bears effective interest rate of 5.25% per annum.

Interest incurred on these loans amounted to P3.3 million and is shown as part of Finance Costs under Other Income (Charges) in the 2013 consolidated statement of comprehensive income. Related debt issuance costs amounted to P6.2 million of which P0.1 million was amortized during 2013 using effective interest rate of 5.54%. Amortized debt issuance cost was also recognized as part of the Finance Costs under Other Income (Charges) in the 2013 consolidated statement of comprehensive income. Unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

The loan is secured by a chattel mortgage of MT Donatella upon its delivery and registration with the Maritime Industry Authority. The carrying amount of MT Donatella, presented as part of construction in progress, amounted to P418.6 million as of December 31, 2013 (see Note 12.1).

The OLSA requires the Group to maintain debt to equity ratio of not more than 1.5:1 and debt coverage ratio (DCR) of at least 1.20, except on drydocking year where minimum DCR shall be 1.00. The Group filed a waiver with the local bank for the debt covenant ratios. Management believes that the DCR will be met once PNX – Chelsea starts operations; hence, the application for the waiver will be approved by the local bank. Accordingly, the Group still classified the liability as non-current.

(h) Notes Payable

The Group availed of various borrowings from local banks with interest rates ranging from 7.0% to 10.2% per annum and will mature within five to seven years. The loans, which are secured by the Groups's certain buildings, depot and pier facilities and hauling and heavy equipment, is payable quarterly (see Note 12.5).

16.3 Term Loans

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

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

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

In 2010, DBP approved the reduction of interest rate from 10.5% to 9% subject to annual review effective September 14, 2010. The agreement also stipulated for interest-bearing hold-out deposits amounting to at least P10.0 million. The Hold-out Deposits were agreed to be released by the DBP in 2012. Hold-out deposit earns interest at the rate of 2.5% per annum. In the 2012, DBP further reduced the interest rate to 7.5% effective March 23, 2012.

The loan is secured by a chattel mortgage on certain vessel of the Group with net book value amounting to P777.8 million and P808.1 million as of December 31, 2013 and 2012, respectively. The loan is also secured by certain collateral on receivables of CSC and guaranteed by certain stockholders of the Group (see Notes 7 and 25.6).

(b) Loan Agreement with Robinsons Bank Corporation (RBC)

On November 23, 2011, the Group entered into a loan agreement with RBC amounting to P65.0 million to partly finance the double hulling and drydocking of certain vessel of the Group (see Note 12.2). The loan is subject to annual interest rate of 8.0% and is payable in twenty-four equal monthly installments.

The loan is secured by a chattel mortgage on one of the vessels of the Group with net book value amounting to P124.2 million and P130.7 million as of December 31, 2013 and 2012, respectively, and receivables of CSC from certain customer (see Note 7). The loan is also guaranteed by certain stockholders of CSC.

The loan agreement requires CSC to maintain debt-to-equity ratio of not more than 3:1 and debt coverage ratio of at least 1.20. CSC filed a waiver with RBC for the debt covenant ratios. No response was received from RBC. However, management believes that its application for the waiver will be approved by RBC. Accordingly, the Group still classified certain portion of liability as non-current (see Note 29.7).

(c) TLA with Maybank Philippines, Inc.

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

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

The TLA also requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1, current ration of at least 1:1 and debt coverage ratio of at least 1.5.

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

(d) TLA with Maybank International Ltd.

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

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

The TLA also requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1, current ration of at least 1:1 and debt coverage ratio of at least 1.5.

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

The balance of the principal of the loan amounted to P794.8 million and P987.2 million, translated into Philippine Peso using the closing rate as of December 31, 2013 and 2012, respectively.

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

(e) TLA with Asia United Bank (AUB)

In 2013, the Group obtained interest-bearing loans from AUB to partially finance the acquisition of tug boats amounting to P100 million. The loan bears fixed interest rate at 7.00% for the first three years from the initial drawdown date, and shall be repriced at the end of the third year from the initial drawdown date (the "Repricing Date"). The repriced rate shall be based on the relevant 2Y PDST-F as of the Repricing Date, plus a spread of 2.00% subject to a floor of 7.00%. The loan is payable in 18 quarterly installments over a period of five years. The first payment will commence on the third interest payment date from the initial drawdown date. The last quarterly installment of the loan is due on November 6, 2018.

As of December 31, 2013, the interest-bearing loans amounted to P100 million, of which P11.1 million was presented under current liabilities section in the consolidated statement of financial position.

Interest expense related to the loans amounted to P1.1 million and is shown as part of Finance Cost under Other Income (Charges) in the 2013 consolidated statement of comprehensive income.

Certain trade receivables amounting to P8.3 million were assigned to secure the payment of these interest-bearing loans (see Note 7).

16.4 Bank Loans

The bank loans represent secured loans from local commercial banks for working capital purposes. The loans bear annual interest rates ranging from 7.5% to 14.0% in 2013 and 2012, subject to monthly repricing. These loans are secured by certain vessels (MT Chelsea Intrepid, Patricia and Ernesto Uno) owned by the Group with net book value, amounting to P201.9 million and P349.8 million as of December 31, 2013 and 2012, respectively (see Note 12.5), and by certain stockholders (see Note 25.6).

16.5 Mortgage Payable

The mortgage payable represents secured loans which bear interest rates ranging from 7.6% to 11.4% per annum, and with terms ranging from 18 months to 36 months. The mortgages are secured by certain service vehicles of the Group, presented as part of Property and Equipment account in the consolidated statements of financial position (see Note 12.5).

16.6 Obligations under Finance Lease

The finance lease liability has an effective interest rate of 5.07% which is equal to the rate implicit in the lease contract (see Note 29.5). Lease payments are made on a monthly basis.

16.7 Credit Line

The Parent Company has an available credit line of P11.0 billion and P10.0 billion under LC and TR, respectively. These lines obtained from various banks are being utilized by the Parent Company for procurement of inventories both local and foreign. The credit line is secured by the following:

(a) Assignment of future receivables;
(b) Suretyship of PPHI and pledge of its share in the Parent Company amounting to P46.9 million (at P1 par value);
(c) Joint several signature of certain stockholders; and,
(d) Negative pledge over the remaining shares of PPHI in Parent Company in favor of the bank amounting to P1.1 billion.

Interest expense for 2013, 2012 and 2011presented as part of Finance Costs account in the statements of comprehensive income amounted to P617.5 million, P467.4 million and P305.4 million (see Note 21.1), respectively, net of the capitalized borrowing cost of P71.4 million, P77.8 million and P91.2 million as of December 31, 2013, 2012 and 2011, respectively (see Note 12.4).

17. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	**2013**	2012
Trade payables	25.2, 25.5	**P 746,957,493**	P 565,867,953
Accrued expenses		**362,111,496**	417,054,888
Advances from customers		**290,926,769**	410,478,006
Retention payable		**106,903,516**	62,783,769
Non-trade payables		**22,462,466**	51,390,519
Income tax payable		**9,608,080**	7,321,912
Others	29.8	**31,457,507**	32,208,137
		P1,570,427,327	P 1,547,105,184

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

The advances from customers include option money from two different locators amounting to P0.1 million as of December 31, 2013 and 2012. The said locators have the right and option to purchase subject properties under the terms and condition agreed by the said locator and the Group. However, in the event that the said locator does not exercise its right to purchase the subject properties, the option money shall be refunded to the said locator plus interest at the rate equivalent to the prevailing treasury bill rate plus 2% per annum.

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

Retention payable is the amount withheld by the Group from its contractors for the construction of buildings, depot and pier facilities. The amount of retention, which is equivalent to ten percent of the total contract price, is payable upon the completion and turnover by the contractor of a construction project and the acceptance thereof by the Group.

18. OTHER NON-CURRENT LIABILITIES

This account consists of:

	Note	2013	2012 (As Restated – see Note 2.2)
Security deposits		**P 275,962,723**	P 270,272,999
Post-employment defined benefit obligation	22.2	**51,100,685**	36,440,105
Unearned rent		**49,726,176**	49,149,537
Others		**-**	995,395
		P 376,789,584	P 356,858,036

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

19. COST OF SALES AND SERVICES

This account is composed of the following as of December 31:

	Notes	2013	2012	2011
Cost of fuels and lubricants sold	19.1	**P 39,785,623,659**	P 31,444,710,716	P 24,646,048,111
Cost of services	19.2	**460,109,294**	517,038,697	426,399,961
Cost of real estate sold	20	**2,433,131**	-	255,169,157
	20, 25.2	**P 40,248,166,084**	P 31,961,749,413	P 25,327,617,229

19.1 Cost of Fuels and Lubricants Sold

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

	Note	2013	2012	2011
Inventories at beginning of year	8	**P 3,688,759,676**	P 2,132,622,405	P 1,051,658,928
Net purchases during the year		**39,909,396,656**	33,000,847,987	25,727,011,588
Goods available for sale		**43,598,156,332**	35,133,470,392	26,778,670,516
Inventories at end of year	8	**(3,812,532,673)**	(3,688,759,676)	(2,132,622,405)
		P 39,785,623,659	P 31,444,710,716	P 24,646,048,111

19.2 Cost of Services

Details of cost of services are shown below:

	Notes	2013	2012	2011
Depreciation and amortization	12, 14	**P 194,146,483**	P 147,371,900	P 95,682,649
Salaries and employees benefits		**50,522,176**	29,065,941	39,170,418
Professional fees		**43,989,983**	42,067,106	19,219,086
Charter hire fees		**34,795,266**	71,143,057	52,127,126
Insurance		**34,095,778**	25,329,791	23,277,799
Repairs and maintenance		**24,474,791**	19,611,488	18,785,445
Port expenses		**23,934,889**	58,257,723	58,067,686
Service fees	25.5	**20,611,959**	-	-
Taxes and licenses		**11,593,974**	7,745,126	8,508,543
Bunkering		**11,540,954**	106,973,168	97,707,682
Fuel, gas and lubricants		**4,798,629**	4,974,245	9,630,985
Security services		**1,644,570**	1,210,469	1,022,920
Outside services		**1,487,408**	-	760,118
Others		**2,472,434**	3,288,683	2,439,504
		P 460,109,294	P 517,038,697	P 426,399,961

20. COSTS AND EXPENSES BY NATURE

The details of the Group's costs and expenses by nature are shown below.

	Notes	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Cost of sales:				
Fuels		**P 39,571,822,572**	P 31,046,564,548	P 24,388,755,788
Lubricants		**213,801,087**	398,146,168	257,292,323
Depreciation and amortization	12, 14	**528,400,077**	405,815,569	299,109,747
Rent	25.3, 29.3	**364,369,594**	240,876,571	170,267,139
Salaries and employee benefits	22.1	**287,613,201**	208,734,347	209,605,521
Trucking charges		**267,300,218**	130,451,226	45,371,313
Advertising and promotions		**176,373,387**	84,473,675	92,164,872
Taxes and licenses		**118,231,983**	132,946,735	102,745,421
Professional fees		**92,185,195**	85,399,457	52,580,571
Service fees		**81,910,722**	81,392,862	14,221,848
Repairs and maintenance		**69,675,294**	61,023,908	50,722,433
Insurance		**62,357,917**	49,923,821	48,880,236
Freight charges		**56,992,995**	50,386,551	109,270,579
Rebates		**49,470,808**	40,802,132	36,277,742
Utilities		**49,221,472**	33,806,011	27,489,547
Travel and transportation		**40,005,732**	35,184,779	32,378,270
Charter hire fees		**34,795,266**	33,546,169	50,427,126
Fuel, oil and lubricants		**33,792,075**	49,339,252	54,281,743
Security fees		**33,738,550**	26,108,756	14,807,846
Port expenses		**23,559,968**	59,299,038	58,067,687
Representation		**18,658,934**	12,761,925	12,596,174
Bunkering		**13,420,044**	62,899,266	97,707,682
Office supplies		**10,668,819**	12,775,030	12,341,093
Outside services		**6,853,856**	9,585,134	1,369,795
Cost of real estate sold	19	**2,433,131**	-	255,169,157
Handling and processing fees		**-**	9,285,094	8,634,724
Miscellaneous	25.8	**31,973,325**	73,882,995	77,283,466
		P 42,239,626,222	P 33,435,411,019	P 26,579,819,843

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

	Note	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Cost of sales and services	19	**P 40,248,166,084**	P 31,961,749,413	P 25,327,617,229
Selling and administrative expenses		**1,991,460,138**	1,473,661,606	1,252,202,614
		P 42,239,626,222	P 33,435,411,019	P 26,579,819,843

21. FINANCE INCOME (COSTS)

The breakdown of these accounts follows:

21.1 Finance Costs

	Notes	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Interest expense on bank loans and other borrowings	16	**P 617,451,997**	P 467,358,205	P 305,402,087
Foreign currency exchange losses – net		**27,100,014**	-	-
Impairment losses on trade and other receivables	7	**17,959,002**	37,851,057	27,252,323
Bank charges		**4,105,360**	9,033,059	13,882,667
Interest expense from post-employment defined benefit obligation	22.2	**2,413,691**	1,499,078	1,431,329
Others		**-**	3,979,094	-
		P 669,030,064	P 519,720,493	P 347,968,406

21.2 Finance Income

	Note	2013	2012	2011
Interest income from cash in banks	6	**P 8,481,577**	P 9,406,440	P 7,834,039
Foreign currency exchange gains – net		**-**	14,061,359	781,821
Day one gain – net		**-**	1,161,552	13,312,527
		P 8,481,577	P 24,629,351	P 21,928,387

22. EMPLOYEE BENEFITS

22.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below.

	Notes	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Short-term benefits:				
Salaries and wages		**P 225,401,424**	P 91,118,445	P 96,927,785
Employee welfare and other benefits		**42,348,608**	101,719,266	105,726,194
13th month pay and bonuses		**10,645,506**	10,975,301	3,062,638
Post-employment defined benefit	22.2	**9,217,663**	4,921,335	3,888,904
	20	**P 287,613,201**	P 208,734,347	P 209,605,521

22.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Group has an unfunded and noncontributory post-employment defined benefit plan. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. Normal retirement benefit is an amount equivalent to 75% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Consolidated Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised), see Note 2.2(a)(ii).

The amount of post-employment defined benefit obligation, which is presented as part of Other Non-current Liabilities account (see Note 18) in the consolidated statements of financial position pertains to the present value of the obligation amounting to P51.1 million and P36.4 million as of December 31, 2013 and 2012, respectively.

The movements in the present value of the post-employment defined benefit obligation recognized in the books are as follows (see Note 18):

	2013	2012 (As Restated - see Note 2.2)
Balance at beginning of year	**P 36,440,105**	P 16,815,536
Current service cost	**9,217,663**	4,921,335
Interest expense	**2,413,691**	1,499,078
Remeasurements:		
Actuarial losses (gains) arising from:		
- changes in financial assumptions	**7,880,254**	(371,380)
- changes in demographic assumptions	**(41,748,870)**	-
- experience adjustments	**37,016,452**	13,678,177
Benefits paid	**(118,610)**	(102,641)
Balance at end of year	**P 51,100,685**	P 36,440,105

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	Notes	**2013**	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Reported in profit or loss:				
Current service cost	22.1	**P 9,217,663**	P 4,921,335	P 3,888,904
Interest expense	21.1	**2,413,691**	1,499,078	1,431,329
		P 11,631,354	P 6,420,413	P 5,320,233
Reported in other comprehensive income:				
Actuarial losses arising from changes in:				
- financial assumptions		**P 7,880,254**	(P 371,380)	P -
- demographic assumptions		**(41,748,870)**	-	-
- experience adjustments		**37,016,452**	13,678,177	166,617
		P 3,147,836	P 13,306,797	P 166,617

Current service cost is presented as part of salaries and employee benefits under Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 22.1).

The interest expense is included as part of Finance Costs under the Other Income (Charges) account (see Note 21.1).

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2013	2012	2011
Discount rates	**4.60% to 5.32%**	5.20% to 6.20%	5.20% to 10.44%
Expected rate of salary increases	**5.00% to 8.00%**	5.00% to 7.00%	5.00% to 10.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bonds with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Group to actuarial risks such as interest rate risk, longevity risk and salary risk.

Interest Risk

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan are described below.

Sensitivity Analysis

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 1.0%	(P 4,520,745)	P 5,438,812
Salary increase rate	+/- 1.0%	4,865,011	(4,166,542)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

Funding Arrangements and Expected Contributions

The plan is currently unfunded. While there are no minimum funding requirement in the country, the unfunded status of the plan may pose a cash flow risk in about 21 years' time when a significant number of employees is expected to retire.

The Group does not expect to make contribution to the plan during the next financial year.

The maturity profile of undiscounted expected benefit payments from the plan within ten years as of December 31, 2013, follows:

Within one year	P 11,722,940
More than one year to five years	39,511,615
More than five years to ten years	34,341,627
	P 85,576,182

The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years.

23. REGISTRATION WITH THE BOARD OF INVESTMENTS

23.1 BOI Registration as New Industry Participant – Batangas Depot

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

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

(a) Income tax holiday (ITH) for five years from February 26, 2010, without extension or bonus year from the date of registration;

(b) Additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to number of workers set by the board of not more than US$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH;

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

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

(d) Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment;

(e) Importation of consigned equipment for a period of five years from the date of registration, subject to posting of a re-export bond; and,

(f) Other non-fiscal incentives, which may be applicable.

23.2 BOI Registration as New Industry Participant – Zamboanga Depot

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

Under its registration, the Parent Company's transaction relating to Zamboanga Depot is also entitled to certain tax and non-tax incentives as also mentioned in Note 23.1. The ITH will expire five years from November 25, 2010.

23.3 BOI Registration for the New Investment in Downstream Oil Industry Activities – Davao Expansion

On May 14, 2010, the Parent Company was registered with the BOI for the new investment in downstream oil industry activities under RA 8479 (Downstream Oil Industry Deregulation Act) for the additional two storage tanks for petroleum products with storage capacity of 7.4 million liters in Davao depot. Under its registration, the Parent Company shall be entitled to avail of the incentives as cited in the previous page. However, ITH for five years from May 14, 2010 is subjected to the base figure of 148.2 million liters representing the Parent Company's highest attained sales volume of its existing depot facilities (in Davao Depot) prior to the filling of application for registration of new investment.

23.4 BOI Registration for New Investment – Bacolod Storage Terminal

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

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

23.5 BOI Registration for New Investment – Cagayan De Oro City Storage Terminal

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

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

23.6 BOI Registration for MT Thelma and MT Cherylyn

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

24. TAXES

The components of tax expense as reported in the consolidated profit or loss follow:

	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Reported in profit or loss:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 28,307,638**	P 14,677,522	P 34,644,588
Final tax at 20% and 7.5%	**1,635,260**	1,564,032	1,558,077
Minimum corporate income tax (MCIT) at 2%	**1,822,943**	462,671	3,357,172
	31,765,841	16,704,225	39,559,837
Deferred tax expense (income) relating to origination and reversal of temporary diffferences	**(30,386,688)**	3,169,323	1,600,176
	P 1,379,153	P 19,873,548	P 41,160,013
Reported in other comprehensive income:			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P 1,109,855**	P 95,550,091	(P 16,829,428)

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the consolidated profit or loss is as follows:

	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Tax on pretax profit at 30%	**P 199,931,027**	P 201,355,110	P 179,661,657
Adjustment for income subjected to lower income tax rates	**(909,213)**	(1,257,900)	(792,135)
Tax effects of:			
Adjustment for income and expenses under income tax holiday	**(201,324,277)**	(186,809,228)	(138,176,875)
Unrecognized deferred tax asset	**47,988**	22,060	97,997
Non-deductible expenses	**3,633,628**	11,600,817	3,274,649
Non-taxable income	**-**	(5,392,024)	(3,144,198)
Reversal of net operating loss carry over (NOLCO)	**-**	354,713	238,918
Tax expense reported in profit or loss	**P 1,379,153**	P 19,873,548	P 41,160,013

The net deferred tax liabilities as of December 31, 2013 and 2012 pertain to the following:

	Consolidated Statements of Financial Position		Consolidated Statements of Comprehensive Income – Profit or Loss			Consolidated Statements of Comprehensive Income – Other Comprehensive Income (Loss)		
	2013	2012 (As Restated - see Note 2.2)	**2013**	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)	**2013**	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Deferred tax assets:								
Retirement benefit obligation	**P 15,330,207**	P 10,932,030	**P 3,453,825**	P 1,895,332	P 2,716,851	**P 944,352**	P 3,992,039	P 49,985
NOLCO	**13,662,197**	16,872,444	**(3,210,247)**	4,346,930	(17,297,124)	**-**	-	-
Unrealized foreign currency losses (gains) – net	**10,954,840**	(10,726,537)	**21,681,377**	(11,051,466)	(338,289)	**-**	-	-
Impairment losses	**10,944,461**	9,910,534	**1,033,927**	1,355,842	1,207,465	**-**	-	-
MCIT	**2,696,022**	1,254,327	**1,441,695**	(5,907,021)	10,582,833	**-**	-	-
Accrued loss on contamination	**2,057,831**	2,057,831	**-**	-	-	**-**	-	-
Accrued rent	**65,992**	65,992	**-**	-	65,992	**-**	-	-
	55,711,550	30,366,621	**24,400,577**	(9,360,383)	(3,062,272)	**944,352**	3,992,039	49,985
Deferred tax liabilities:								
Revaluation reserves of tanker	**(122,809,003)**	(126,065,189)	**5,310,393**	5,173,210	3,405,691	**(2,054,207)**	(99,542,130)	16,779,443
Capitalized borrowing cost	**(8,222,176)**	(8,542,521)	**320,345**	320,345	320,345	**-**	-	-
Unamortized debt issuance cost	**(1,211,062)**	(1,566,435)	**355,373**	697,505	(2,263,940)	**-**	-	-
	(132,242,241)	(136,174,145)	**5,986,111**	6,191,060	1,462,096	**(2,054,207)**	(99,542,130)	16,779,443
Net deferred tax liabilities	**(P 76,530,691)**	(P 105,807,524)						
Net deferred tax income (expense)			**P 30,386,688**	(P 3,169,323)	(P 1,600,176)	**(P 1,109,855)**	(P 95,550,091)	P 16,829,428

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

Taxable Years	Original Amount	Tax Effect	Valid Until
2013	P 22,765,974	P 6,829,792	2016
2012	17,268,978	5,180,693	2015
2011	6,065,855	1,819,757	2014
	P 46,100,807	**P 13,830,242**	

Deferred tax asset on NOLCO of PGMI amounting to P168,045 and P350,965 as of December 31, 2013 and 2012, respectively, was not recognized since management assessed that this is not recoverable as PGMI does not expect any taxable income in the coming years.

The Group is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. PPMI and PPIPC's MCIT was higher than RCIT for the years 2013, 2012 and 2011. The Parent Company's MCIT was higher than RCIT in 2011.

The amounts of MCIT and the applicable years that are valid and deductible from future regular income tax payable are shown below.

Taxable Years	Normal Income Tax	MCIT	Excess of MCIT Over Income Tax	Tax Effect	Valid Until
2013	P -	P 1,822,943	P 1,822,943	P 1,822,943	2016
2012	-	719,079	719,079	719,079	2015
2011	-	154,000	154,000	154,000	2014
	P -	P 2,696,022	P 2,696,022	P 2,696,022	

In 2013, 2012 and 2011, the Group opted to claim itemized deductions in computing for its income tax due.

25. RELATED PARTY TRANSACTIONS

The Group's related parties include the ultimate parent company, the parent company, 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 significant transactions with its related parties as of December 31, 2013 and 2011, and for the years ended December 31, 2013, 2012 and 2011:

Related Party Category	Notes	Amount of Transactions 2013	2012	2011	Outstanding Balance 2013	2012
Other related parties under common ownership						
Sales of goods	7, 25.1	**P 39,139,112**	P 125,553,735	P 128,664,820	**P 37,334,222**	P 88,444,125
Purchases of services	17, 25.2	**-**	654,413,710	391,133,996	**-**	4,963,791
Rentals	25.3	**43,119,800**	53,004,744	6,695,421	**-**	-
Due from related parties	25.4	**(5,552,006)**	(15,311,686)	6,302,572	**2,747,994**	8,300,000
Due to related parties	25.4	**(21,390,502)**	24,371,146	(83,885,109)	**62,161,243**	83,551,745
Donations	25.8	**1,500,500**	5,298,172	5,100,000	**-**	-
Associate						
Technical ship Services	17, 19.2, 25.5	**20,611,959**	-	-	**3,205,287**	-
Other related party						
Due to related parties	25.4	**-**	-	-	**2,000,000**	2,000,000
Key management personnel						
Salaries and employee benefits	25.7	**50,027,748**	45,610,775	37,955,020	**-**	-

25.1 Sales of Goods

The Group sells products to certain related parties. Goods are sold on the basis of the price lists in force with non-related parties. Revenues arising from these transactions are presented as part of Sale of Goods in the consolidated statements of comprehensive income. The outstanding receivables from sales of goods to other related parties are presented as part of Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from related parties are unsecured and do not bear any interest. No impairment loss was recognized in 2013, 2012 and 2011 based on Management's assessment.

25.2 Purchases of Services

The Group purchased services from related parties on the basis of price lists in force with non-related parties. The amounts of transactions are presented as part of the Cost of Sales and Services account in the consolidated statements of comprehensive income (see Note 19.1) while the related outstanding payables for services obtained as of December 31, 2013 and 2012 are presented as part of Trade Payables under the Trade and Other Payables account (see Note 17).

25.3 Rentals

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

(a) Udenna Corporation – of which total rent expense incurred in the years 2013, 2012 and 2011 amounted to P6.5 million, P6.6 million and P6.3 million, respectively. There is no outstanding payable as of all the years presented.

(b) Udenna Development (UDEVCO) Corporation – of which total rent expense in 2013 and 2012 amounted to P28.5 million and P26.4 million, respectively and nil in 2011. Rental deposit for the lease amounted to P7.1 million and P7.4 million as of December 31, 2013 and 2012, respectively, and is presented as Refundable Rental Deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 14).

(c) Valueleases, Inc. – of which total rent expense in 2013, 2012 and 2011 amounted to P8.1 million, P20.0 million and P0.4 million, respectively. Refundable Rental Deposits amounted to P0.1 million as of December 31, 2013 and 2012, and is presented as part of Other Non-current Assets in the consolidated financial statements (see Note 14).

The rent expenses aforementioned are presented as part of Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Notes 20 and 29.3).

25.4 Due from and Due to Related Parties

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

As of December 31, 2013 and 2012, the outstanding receivable and payable balances from these advances are shown as Due From Related Parties and Due to Related Parties, respectively, in the consolidated statements of financial position. Due from Related Parties and Due to Related Parties - current are either receivable in cash or paid through offsetting, unsecured noninterest-bearing liabilities and are expected to be paid within one year. Non-current Due to Related Parties, on the other hand, are unsecured non-interest bearing liabilities. These are stated at their carrying value since the date of repayment is not currently determinable.

Due from related parties represent outstanding advances to Udenna Environmental Services, Inc. amounting to P2.7 million and P8.3 million as of December 31, 2013 and 2012, respectively.

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

	2013	2012
Balance at beginning of year	**P 8,300,000**	P 26,311,686
Additions	**17,362,078**	9,467,416
Collections	**(22,914,084)**	(27,479,102)
Balance at end of year	**P 2,747,994**	P 8,300,000

No impairment loss is recognized in 2013, 2012 and 2011 related to advances to related parties.

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

	2013	2012
Related parties under common ownership:		
UMRC	**P 62,161,243**	P 83,551,745
Other related party:		
Global International (Subic) Phils, Corp.	**2,000,000**	2,000,000
	P 64,161,243	P 85,551,745

The movement of Due to Related Parties in 2013 and 2012 follows:

	2013	2012
Balance at beginning of year	**P 85,551,745**	P 61,180,599
Additions	**-**	177,435,185
Payments	**(21,390,502)**	(153,064,039)
Balance at end of year	**P 64,161,243**	P 85,551,745

25.5 Technical Ship Services Agreement

On April 1, 2013, the Group entered into a Technical Ship Services Agreement (the Agreement) with NPMSC, a newly incorporated associate of CSC. Under the Agreement, NPMSC shall carry out technical services in respect of CSC's tanker vessel as agents for and on behalf of the CSC. NPMSC's responsibilities include crew management, technical management, accounting services, and the arrangement for the supply of provisions.

Total technical ship services fee incurred in 2013 is presented as Service Fees under the Cost of Sales and Services account in the 2013 consolidated statement of comprehensive income (see Note 19.2), while the related outstanding liability is presented as part of Trade and Other Payables in the 2013 consolidated statement of financial position (see Note 17).

25.6 Loan Collateral

(a) Surety and a negative pledge over the remaining shares of a stockholder secured the liabilities under letters of credits and trust receipts (see Note 16.1).

(b) The TLA with DBP, OLSA with BDO and PBComm, loan agreement with RBC and certain banks loans of the Group were guaranteed by certain stockholders through a surety agreement with the respective banks. The vessels owned by the Group were also used as security on particular loans.

25.7 Key Management Compensations

The compensations of key management personnel are broken down as follows:

	2013	2012	2011
Salaries and wages	**P 40,724,453**	P 36,822,265	P 31,121,478
13th month pay and bonuses	**4,586,418**	4,129,412	3,625,681
Honoraria and allowances	**4,447,058**	4,416,398	3,000,011
Post-employment benefits	**269,819**	242,700	207,850
	P 50,027,748	P 45,610,775	P 37,955,020

25.8 Others

The Group has made donations amounting to P0.5 million, P1.5 million and P0.5 million in 2013, 2012 and 2011, respectively, to Udenna Foundation, Inc., a non-stock, non-profit organization established by the ultimate parent company. In addition, the Group has also made donations amounting to P1.0 million, P3.8 million and P4.6 million 2013, 2012 and 2011, respectively, to PhoenixPhilippines Foundation, Inc., a non-stock non-profit organization established by the Parent Company. The donations are presented as part of miscellaneous under Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 20).

26. EQUITY

26.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2013	2012	2011	**2013**	2012	2011
Preferred – cumulative, nonvoting, non-participating, non-convertible into common shares – P1 par value						
Authorized:	**50,000,000**	50,000,000	50,000,000	**P 50,000,000**	P 50,000,000	P 50,000,000
Issued and outstanding	**5,000,000**	5,000,000	5,000,000	**P 5,000,000**	P 5,000,000	P 5,000,000
Common shares – P1 par value						
Authorized:						
Balance at beginning of year	**2,500,000,000**	750,000,000	750,000,000	**P 2,500,000,000**	P 750,000,000	P400,000,000
Increase in authorized stock	**-**	1,750,000,000	-	**-**	1,750,000,000	350,000,000
Balance at end of year	**2,500,000,000**	2,500,000,000	750,000,000	**P 2,500,000,000**	P2,500,000,000	P750,000,000
Issued:						
Balance at beginning of year	**906,059,416**	661,123,014	548,075,739	**P 906,059,416**	P 661,123,014	P548,075,739
Issuance during the year	**193,000,000**	-	-	**193,000,000**	-	-
Stock dividends	**329,717,816**	244,936,202	113,043,634	**329,717,816**	244,936,202	113,043,634
Reclassification	**-**	200	3,641	**-**	200	3,641
Balance at end of year	**1,428,777,232**	906,059,416	661,123,014	**P 1,428,777,232**	P 906,059,416	P661,123,014
				P 1,433,777,232	P 911,059,416	P666,123,014

On April 23, 2012, the SEC approved the Parent Company's increase in authorized capital stock from P800.0 million divided into 750.0 million common shares with a par value of P1 and 50.0 million preferred shares with par value of P1 per share into P2,550.0 million divided into 2,500.0 common shares with par value of P1 per share and 50.0 million preferred shares with par value of P1 per share.

The preferred shares shall have the following features:

(a) Non-convertible into common shares;

(b) Non-participating in any other corporation activities or other further dividends, non-voting except in cases specified by law;

(c) No pre-emptive rights over the holders of common shares as to distribution of net assets in the event of dissolution or liquidation and in the payment of dividends at a specified rate. The Board of Directors shall determine its issued value at the time of issuance and shall determine its dividend rates and the dividends shall be paid cumulatively; and,

(d) The preferred shares shall be redeemable at the Parent Company's option under such terms as the Board of Directors may provide at the time of issuance. It shall also be re-issuable when fully redeemed.

Moreover, preferred shares have the following features among others as provided in the subscription agreement;

(a) Dividends on the Preferred Shares shall have a fixed rate of 11.50% per annum calculated in respect of each share with reference to the Issue Price thereof in respect to each dividend period.

(b) Dividends shall be payable every September 21, December 21, March 21 and June 21 of each year (each a "Dividend Payment Date"). The dividends on the Preferred Shares shall be calculated on a 30/360 day basis and shall be paid quarterly in arrears on the last day of each 3-month dividend period (each a Dividend Payment Date), as and if declared by the Board of Directors. If the Dividend Payment Date is not a banking day, dividends shall be paid on the next succeeding banking day, without adjustment as to the amounts of dividends to be paid.

(c) The Preferred Shares shall have priority in the payment of dividends at the stipulated rate at the time of issuance and in the distribution of corporate assets in the event of liquidation and dissolution of the Parent Company. As such, the Board of Directors to the extent permitted by law shall declare dividends each quarter sufficient to pay the equivalent dividend. Dividends on the shares shall be cumulative. If for any reason the Parent Company's Board of Directors does not declare a dividend on the Preferred Shares for a particular dividend period, the Parent Company shall not pay a dividend for said dividend period. However, on any future Dividend Payment Date on which dividends are declared holders of the shares shall receive the dividends accrued and unpaid to the holders of the Preferred Shares prior to such Dividend Payment Date. Holders of Preferred Shares shall not be entitled to participate in any other further dividends beyond the dividends specifically payable on the Preferred Shares.

Moreover, the subscription agreement requires that the Parent Company undertakes to maintain a long-term debt to equity ratio of 1:1 throughout the life of the preferred shares.

In December 20, 2013, the Parent Company redeemed the preferred shares issued in 2010 and re-issued the same amount and features of preferred shares except for the rate, which was reduced to 8.25% per annum

The Parent Company has 45 and 41 stockholders owning 100 or more shares each of the Parent Company's capital stock as of December 31, 2013 and 2012, respectively.

Based on its plans, the Board of Directors of the Parent Company will also declare and distribute in 2014 cash dividends out of the Parent Company's retained earnings as of December 31, 2013.

26.2 Listing with PSE

On July 11, 2007, the Parent Company offered a portion of its stocks for listing with the PSE. Number of common shares registered was 145.0 million with an issue price of P9.80. As of December 31, 2013, the number of holders of such securities is 53. The market price of the Parent Company's shares as of December 31, 2013 is P4.50.

The history of public offerings and private placements of the shares of the Parent Company lodged at PSE are as follows:

Transaction	Subscriber	Issue Date	Number of Shares
Initial public offering	Various	July 11, 2007	29,000,000
30% stock dividends	Various	August 6, 2008	43,000,198
40% stock dividends	Various	August 3, 2009	73,660,476
Placement	Social Security System	November 13, 2009	7,500,000
40% stock dividends	Various	October 20, 2010	107,664,266
30% stock dividends	Various	May 6, 2011	113,047,475
50% stock dividends	Various	April 26, 2012	244,936,203
Shares issuance for CSC acquisition	UMRC	September 6, 2012	171,250,798
Placement	Various	March 11, 2013	130,000,000
30% stock dividends	Various	June 10, 2013	329,717,816
Payment of subscription	PPHI	October 8, 2013	63,000,000
			1,312,777,232

26.3 Additional Paid-in Capital

In 2013, the Parent Company issued 130.0 million of its common shares at P9.40 per share and 63.0 million common shares at P5.10 per share. The excess of the par value for such subscriptions amounting to P1,350.3 million was recorded as part of Additional Paid-in Capital account. In addition, direct cost of the share issuances amounting to P34.1 million was deducted from the Additional Paid-in Capital account.

In 2012, the Parent Company issued 171,250.8 million shares in favor of UMRC in relation to the share-for-share swap acquisition of CSC. The excess of par value of such issuance amounted to P1,248.9 million was recorded as part of Additional Paid-in Capital account.

In 2010, the Parent Company issued 5.0 million of its preferred shares at P100 per share. The excess of par value for such subscription amounting to P495.0 million was recorded as part of Additional Paid-in Capital account in the consolidated statements of financial position. In addition, the excess of the selling price over the acquisition cost of the treasury shares sold in 2010 also constitutes the Additional Paid-in Capital account. The preferred shares issued in 2010 were redeemed on December 20, 2013 and on the same date, the same share and value of preferred shares were issued.

In 2009, the Social Security System has bought an initial 2.83% stake in the Parent Company representing 7.5 million subscribed common shares for P42.0 million or at P5.60 per share. The excess of par value for such subscription amounting to P34.5 million was recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

In 2007, the Parent Company listed its shares of stock with PSE. Premiums received in excess of the par value during the public offering amounting to P227.1 million were recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

26.4 Other Reserves

In 2012, the Parent Company issued 171,250.8 million common shares plus cash of P157.8 million in exchange of the net assets of CSC. The acquisition of CSC is accounted for under business combination using pooling-of-interest method wherein the difference between the consideration given up over the carrying value of the net assets of CSC is recognized as Other Reserves.

26.5 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the consolidated statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

	Property and Equipment	Defined Benefit Obligation	Total
Balance as of January 1, 2013	P 294,152,102	(P 11,729,072)	P 282,423,030
Remeasurements of defined post-employment obligation	-	(3,147,836)	(3,147,836)
Revaluation of tankers	6,847,358	-	6,847,358
Depreciation transfer to retained earnings – revalued tankers	(17,701,323)	-	(17,701,323)
Other comprehensive loss before tax	(10,853,965)	(3,147,836)	(14,001,801)
Tax income	3,256,190	944,352	4,200,542
Other comprehensive loss after tax	(7,597,775)	(2,203,484)	(9,801,259)
Balance as of December 31, 2013	**P 286,554,327**	**(P 13,932,556)**	**P 272,621,771**

	Property and Equipment	Defined Benefit Obligation	Total
Balance as of January 1, 2012	P 73,957,965	(P 2,414,314)	P 71,543,651
Remeasurements of defined post-employment obligation	-	(13,306,797)	(13,306,797)
Revaluation of tankers	331,807,097	-	331,807,097
Depreciation transfer to retained earnings – revalued tankers	(17,244,043)	-	(17,244,043)
Other comprehensive income (loss) before tax	314,563,054	(13,306,797)	301,256,257
Tax income (expense)	(94,368,917)	3,992,039	(90,376,878)
Other comprehensive income (loss) after tax	220,194,137	(9,314,758)	210,879,379
Balance as of December 31, 2012	P 294,152,102	(P 11,729,072)	P 282,423,030
Balance as of January 1, 2011	P 121,056,606	(P 2,297,682)	P 118,758,924
Remeasurements of defined post-employment obligation	-	(166,617)	(166,617)
Reversal of revaluation of tankers	(55,931,472)	-	(55,931,472)
Revaluation reserves of tankers sold	(1,101,067)	-	(1,101,067)
Depreciation transfer to retained earnings – revalued tankers	(9,779,350)	-	(9,779,350)
Other comprehensive loss before tax	(66,811,889)	(166,617)	(66,978,506)
Tax income	19,713,248	49,985	19,763,233
Other comprehensive loss after tax	(47,098,641)	(116,632)	(47,215,273)
Balance as of December 31, 2011	P 73,957,965	(P 2,414,314)	P 71,543,651

26.6 Retained Earnings

On March 8, 2013, the stockholders ratified the BOD approval of 30% stock dividends (or a total of 329.7 million shares), valued at par and distributed on June 10, 2013 to stockholders of record as of May 15, 2013. Cash dividends of 10 centavos per common shares totaling to P103.6 million were also declared and paid in 2013. In addition, total cash dividends declared and distributed to preferred stockholders amounted to P57.5 million in 2013.

On March 8, 2012, the stockholders ratified the BOD's approval of 50% stock dividends (or a total of 244.9 million shares), valued at par and distributed on April 26, 2012 to stockholders of record as of March 28, 2012. In addition, cash dividends of 10 centavos per common shares totaling to P49.0 million were also declared and paid in 2012. In addition, total cash dividends declared and distributed to preferred stockholders amounted to P57.5 million in 2012.

On March 11, 2011, the stockholders ratified the BOD's approval of 30% stock dividends (or a total of 113.0 million shares), valued at par and distributed on May 6, 2011 to stockholders of record as of April 8, 2011. In addition, cash dividends of 10 centavos per common share totaling to P37.7 million were also declared and paid in 2011.
On March 21, 2011, June 21, 2011, September 21, 2011 and December 1, 2011, the BOD declared and approved the payment of cash dividend to preferred shareholders totaling to P70.7 million.

26.7 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and,
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

	2013	2012 (As Restated – see Note 2.2)
Total liabilities	**P 15,839,647,662**	P 12,010,644,286
Total equity	**6,497,905,304**	4,482,170,994
Debt-to-equity ratio	**2.44 : 1.0**	2.68 : 1.0

The increase of the total liabilities in 2013 is the result of the additional borrowings for the procurement of petroleum and construction of depot facilities, tankers and retail stations. The increase in equity is due to the accumulated earnings and premiums received on the issuance of shares.

The Group's goal in capital management is to maintain a debt-to-equity structure ratio of 2.7 to 1.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

27. EARNINGS PER SHARE

EPS were computed as follows:

	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
a) Net profit pertaining to common shares	**P 608,047,331**	P 593,810,152	P 500,212,178
b) Net profit attributable to common shares and potential common shares	**608,047,331**	593,810,152	500,212,178
c) Weighted average number of outstanding common shares	**1,357,005,010**	1,235,777,232	1,235,777,032
d) Weighted average number of outstanding common and potential common shares	**1,357,005,010**	1,235,777,232	1,235,777,032
Basic EPS (a/c)	**P 0.45**	P 0.48	P 0.40
Diluted EPS (b/d)	**P 0.45**	P 0.48	P 0.40

The options and warrants attached on the convertible notes do not have dilutive effect since the average market price of the common shares of the Parent Company during the year does not exceed the exercise price of the options or warrants [see Note 16.2(e)].

The 2012 and 2011 basic and diluted EPS were restated for the changes brought about by the Group's adoption of PAS 19 (Revised) and the stock dividends declared which is considered as a bonus issue under PAS 33, *Earnings per Share*. PAS 33 requires to treat stock dividends issued as if it occurred at the beginning of 2011, the earliest period presented for EPS computation.

28. SEGMENT REPORTING

28.1 Business Segments

In identifying its operating segments, management generally follows the Group's service lines, which represent the main products and services provided by the Group, namely fuels, lubricants, depot services and real estate. These are also the bases of the Group in reporting its primary segment information.

(a) Trading segment is engaged in marketing, merchandising, purchasing, selling, dealing, acquiring, disposing and distribution of goods and wares such as but not limited to petroleum products (on wholesale basis), adhesives, glues, bonding agents, epoxy resins, lubricants and other products.

(b) Depot and logistics services segment is engaged in operating of oil depots, storage facilities and provides logistics services to various entities.

(c) 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 to ship owners, operators and managers.

(d) Real estate segment is involved in real estate development, management and operations.

28.2 Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property and equipment, and other assets, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts payable, trust receipts, wages, and accrued liabilities. Segment assets and liabilities do not include deferred tax assets or liabilities.

28.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between segments and between geographical segments. Such sales and purchases are eliminated upon consolidation.

The tables presented in the next pages present revenue and profit information regarding business segments of the Group for the years ended December 31, 2013, 2012 and 2011 and certain asset and liability information regarding industry segments as of December 31, 2013 and 2012 (in thousands).

	Trading			Depot and Logistics			Shipping and Cargo Services			Real Estate			Total		
	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
TOTAL REVENUES															
Sales to external customers	**P 43,170,295**	P 18,114,762	P 9,417,563	**P 78,080**	P4,991,055	P 1,773,215	**P 220,471**	P11,479,735	P 9,619,020	**P 83,140**	P -	P 6,641,180	**P 43,551,986**	P 34,585,552	P 27,450,978
Intersegment sales	**3,672,471**	8,247,365	5,763,241	**1,123,486**	2,983,599	3,560,728	**539,099**	1,023,475	800,742	**-**	-	-	**5,335,056**	12,254,439	10,124,711
Total revenues	**46,842,766**	26,362,127	15,180,804	**1,201,566**	7,974,654	5,333,943	**759,570**	12,503,210	10,419,762	**83,140**	-	6,641,180	**48,887,042**	46,839,991	37,575,689
COSTS AND OTHER OPERATING EXPENSES															
Cost of sales and services excluding depreciation and amortization	**45,040,855**	9,870,315	8,462,003	**1,610,067**	27,608,374	19,074,505	**352,475**	7,790,861	5,497,187	**60,307**	-	3,368,206	**47,063,704**	45,269,550	36,401,901
Depreciation and amortization	**148,288**	228,398	120,842	**176,743**	69,092	42,459	**180,284**	108,325	82,944	**2,740**	-	52,865	**508,055**	405,815	299,110
	45,189,143	10,098,713	8,582,845	**1,786,810**	27,677,466	19,116,964	**532,759**	7,899,186	5,580,131	**63,047**	-	3,421,071	**47,571,759**	45,675,365	36,701,011
SEGMENT OPERATING PROFIT (LOSS)	**P 1,653,623**	P 16,263,414	P 6,597,959	**(P 585,244)**	(P19,702,812)	(P13,783,021)	**P 226,811**	P 4,604,024	P 4,839,631	**P 20,093**	P -	P 3,220,109	**P 1,315,283**	P 1,164,626	P 874,678
ASSETS AND LIABILITIES															
Segment assets	**P 20,383,452**	P 13,260,050		**P 719,749**	P1,898,562		**P3,597,560**	P 741,817		**P 1,085,589**	P 647,561		**P 25,786,350**	P 16,547,990	
Segment liabilities	**14,181,969**	9,346,534		**2,603,665**	937,088		**1,987,929**	987,884		**423,976**	674,130		**19,197,539**	11,945,636	

28.5 Reconciliations

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

	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Revenues			
Total segment revenues	**P48,887,042**	P 46,839,991	P 37,575,689
Elimination of intersegment revenues	**(5,335,056)**	(12,254,439)	(10,124,711)
Revenues as reported in profit or loss	**P43,551,986**	P 34,585,552	P 27,450,978
Profit or loss			
Segment operating profit	**P 1,315,283**	P 1,164,626	P 874,678
Other unallocated income	**22,845**	5,863	58,754
Other unallocated expense	**(11,143)**	(4,214)	(8,520)
Operating profit as reported in profit or loss	**1,326,985**	1,166,275	924,912
Finance costs	**(669,030)**	(519,720)	(347,968)
Finance income	**8,482**	24,629	21,928
Profit before tax as reported in profit or loss	**P 666,437**	P 671,184	P 598,872
Assets			
Segment assets	**P25,786,350**	P 16,547,990	
Elimination of intercompany accounts	**(3,434,422)**	(40,800)	
Total assets reported in the consolidated statements of financial position	**P22,351,928**	P 16,507,190	
Liabilities			
Segment liabilities	**P 19,197,539**	P 11,945,636	
Deferred tax liabilities - net	**76,531**	105,808	
Elimination of intercompany accounts	**(3,434,422)**	(40,800)	
Total liabilities as reported in the consolidated statements of financial position	**P15,839,648**	P 12,010,644	

29. COMMITMENTS AND CONTINGENCIES

29.1 Capital Commitments

As of December 31, 2013, the Group has commitments of more than P1,000.0 million for expansion on petroleum retail network, depot, terminalling and logistics facilities, information technology infrastructure and other major expansions related to its business development. The Group has a network of 368 operating retail service stations as of December 31, 2013. An additional of 70 retail service stations are under various stages of completion as of December 31, 2013.

In 2012, the Group plans to expand further its petroleum retail service stations and carry out its investments in its subsidiaries to put up depot and terminalling facilities in strategic locations and complete its chain of logistical support to strengthen its foothold in the industry.

29.2 Letters of Credits

As of December 31, 2013, 2012 and 2011, the Parent Company has unused LCs amounting to P1,021.0 million, P4,430.0 million and P1,200.0 million, respectively.

29.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under several operating leases. The leases have terms ranging from 2 to 25 years, with renewal options, and include annual escalation rates of 2% to 10%. The future minimum rentals payable under these cancelable operating leases are presented as follows:

	2013	2012
Within one year	**P 259,337,311**	P 187,663,835
After one year but not more than five years	**1,042,366,014**	670,823,252
More than five years	**2,009,559,064**	808,176,037
	P 3,311,262,389	P 1,666,663,124

Total rent expense for the years 2013, 2012 and 2011 amounted to P 364.4 million, P240.9 million and P170.3 million, respectively (see Note 20).

29.4 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases with third parties. The leases have terms ranging from 2 to 15 years, with renewal options, and include annual escalation rates of 2% to 10%. The future minimum rentals receivables under these cancelable operating leases are presented below:

	2013	2012
Within one year	**P 45,535,652**	P 38,530,088
After one year but not more than five years	**100,847,748**	84,012,963
More than five years	**5,499,057**	4,003,448
	P 151,882,457	P 126,546,499

Rent income in 2013, 2012 and 2011 amounting to P47.5 million, P54.3 million and P22.3 million, respectively, is presented as part of Rent and Storage Income account in the consolidated statements of comprehensive income.

29.5 Finance Lease Commitments – Group as Lessee

The Group is a lessor under several finance lease covering certain hauling trucks with a lease term of 2 to 5 years. The leases provide options to purchase the transportation equipment at the end of the lease terms. Future minimum lease payments (MLP) under the finance leases together with the present value (PV) of the net minimum lease payments (NMLP) is as follows:

	2013		2012	
	Future MLP	**PV of NMLP**	Future MLP	PV of NMLP
Within one year	**P 9,007,429**	**P 7,559,190**	P 10,393,611	P 7,678,316
After one year but not more than five years	**14,253,842**	**13,226,187**	23,521,664	20,314,918
	23,261,271	**20,785,377**	33,915,275	27,993,234
Amounts representing finance charges	**(2,475,894)**	**-**	(5,922,041)	-
Present value of MLP	**P 20,785,377**	**P20,785,377**	P 27,993,234	P 27,993,234

The liabilities relating to the finance leases are shown as part of Interest-bearing Loans and Borrowings (see Note 16.6).

29.6 TC Agreement

The Group has existing commitments to charterers under TC agreements for the use of its tankers in transporting oil products for a fixed period. Also associated with these TC agreements is the obligation to keep the Group's tankers in good working condition and compliant with all the shipping regulations as required by the MARINA.

29.7 Loan Agreement with RBC

The loan agreement with RBC requires CSC to maintain debt-to-equity ratio of not more than 3:1 and debt coverage ratio of at least 1.20. CSC filed a waiver with RBC for the debt covenant ratios. No response was received from RBC. However, management believes that its application for the waiver will be approved by RBC. Accordingly, the Group still classified certain portion of liability as non-current [see Note 16.3 (b)].

29.8 Legal Claims

The Group filed a complaint for a sum of money against one of its customers for unpaid charter fees including damages. A Writ of Garnishment on the customer's funds for the amount of P15.9 million has been issued by the trial court in favor of the Group.

The same customer filed a suit against the Group for reimbursement and damages, amounting to P13.7 million, for the loss it incurred from the contamination of its cargo, which was on board one of the Group's vessels in 2010. In the same year, the MI made a provision in the amount of P6.9 million for the amount of probable liability that it could answer for such claim. The related liability is presented as part of Others under the Trade and Other Payables account in the consolidated statements of financial position (see Note 17). No additional loss was recognized related to this claim in 2011 and 2012.

In 2012, certain bank account of the Group was garnished. The remaining balance on such bank accounts as of December 31, 2012 was presented as part of Prepayments and other current assets in the 2012 consolidated statement of financial position (see Note 11).

29.9 Others

In May 2011, the Bureau of Customs (BOC) filed before the Department of Justice (DOJ) a complaint against the Group's President and Chief Executive Officer and other respondents for alleged violation of Sections 3602, 2501(l)(1) & (5), 1801, 1802 and 3604 of the Tariff and Customs Code of the Philippines. In November 2012, the DOJ dismissed the case for lack of probable cause against all respondents. In April 2013, the DOJ, upon motion for reconsideration filed by the BOC, reversed its earlier resolution and recommended the filing of Criminal Informations against the respondents. Criminal Informations for alleged violations of Section 3602, in relation to Sections 3601, 2530 1 (l) & 5, 1801 and 3604 of the Tariff and Customs Code of the Philippines were filed before the Regional Trial Courts (RTC) of Batangas and Davao City in August 2013. Separately, in September and October 2013, RTC Batangas and Davao City, respectively, have dismissed all charges against the Group's President and Chief Executive Officer.

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not given recognition in the consolidated financial statements. As of December 31, 2013, the management believes that losses, if any, that may arise from these commitments and contingencies will not have material effects on the consolidated financial statements.