01 August 2011

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

Dear ***Ms. Encarcion***:

We would like to submit the Company's Second Quarter Report for period ended June 30, 2011 or SEC Form 17-Q in compliance with the Revised Disclosure Rules and Securities Regulation Code.

Thank you and best regards.

Very truly yours,

Atty. Socorro Ermac Cabreros
Corporate Secretary

COVER SHEET

A	2	0	0	2	0	7	2	8	3

S.E.C. Registration Number

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

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

(Company's Full Name)

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

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

Dennis A. Uy
Contact Person

(082) 233-0168
Company Telephone Number

1	2		3	1		**SEC Form 17-Q**		**6**		**XX**
Month			Day			FORM TYPE		Month		Day

Fiscal Year Ending

last Thursday
Annual Meeting

Secondary License Type, if applicable

Dept. Requiring this Doc

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel Concerned

File Number

LCU

Document I.D.

Cashier

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q, AS AMENDED

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

1.	For the quarterly period ended:	June 30, 2011
2.	SEC identification number:	A200207283
3.	BIR Tax Identification No.	006-036-274
4.	Exact name of issuer as specified in its charter	**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**
5.	Province, country or other jurisdiction of incorporation or organization	Davao City, Philippines.
6.	Industry Classification Code:	(SEC Use Only)
7.	Address of issuer's principal office:	Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City
	Postal Code:	8000
8.	Issuer's telephone number, including area code:	(082) 233-0168
9.	Former name, former address and former fiscal year, if changed since last report:	Not Applicable

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each class	Number of Shares Outstanding
COMMON	489,872,415
PREFERRED	5,000,000

Amount of Debt Outstanding as of June 30, 2011: Php 6,260,935,906.00.00

11. Are any or all of the securities listed on the Stock Exchange? Yes [ ] No [✓]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein: Philippine Stock Exchange Common shares 489,872,415

12. Check whether the issuer has:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports): Yes [✓] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days: Yes [✓] No [ ]

TABLE OF CONTENT

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
(A Subsidiary of P-H-O-E-N-I-X Petroleum Holdings, Inc.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 and AUDITED 2010
(Amounts in Philippine Pesos)

	Notes	June 30, 2011 (Unaudited)	December 31, 2011 (Audited)
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	6	**448,761,152**	P 605,444,745
Trade and other receivables - net	7	**2,098,586,808**	2,592,845,395
Inventories	8	**2,238,407,056**	1,051,658,928
Land held for sale and land development costs	9	**451,587,118**	451,587,118
Due from related parties	24	**14,750,495**	14,750,495
Restricted deposits	10	**90,988,331**	73,422,716
Input value-added tax - net		**140,819,533**	27,539,110
Other current assets	11	**89,772,703**	53,432,012
Total Current Assets		**5,573,673,197**	4,870,680,519
NON-CURRENT ASSETS			
Installment contract receivables		**-**	18,005,640
Land held for future development	13	**315,874,750**	315,874,750
Property and equipment - net	12	**2,830,976,764**	2,358,043,160
Deferred tax assets	23	**19,603,591**	19,263,602
Other non-current assets	14	**221,075,668**	59,404,222
Total Non-current Assets		**3,387,530,773**	2,770,591,374
TOTAL ASSETS		**8,961,203,970**	P 7,641,271,893

	Notes		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	15	**4,584,659,058**	P 2,703,702,165
Trade and other payables	16	**771,264,985**	1,637,293,361
Due to parent company	24	**-**	53,106,188
Total Current Liabilities		**5,355,924,043**	4,394,101,714
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	15	**726,400,225**	723,350,472
Other non-current liabilities	17	**178,611,638**	62,611,981
Total Non-current Liabilities		**905,011,863**	785,962,453
Total Liabilities		**6,260,935,906**	5,180,064,167
EQUITY	25		
Common stock		**489,872,415**	376,824,940
Preferred stock		**5,000,000**	5,000,000
Additional paid-in capital		**802,778,234**	802,778,234
Deposits on future stock subscriptions		**-**	-
Treasury shares		**-**	-
Retained earnings		**1,402,617,415**	1,276,604,552
Total Equity		**2,700,268,064**	2,461,207,726
TOTAL LIABILITIES AND EQUITY		**8,961,203,970**	P 7,641,271,893

See Notes to Consolidated Financial Statements.

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

(A Subsidiary of P-H-O-E-N-I-X Petroleum Holdings, Inc.)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE QUARTERS ENDED JUNE 30, 2011 AND 2010

(Amounts in Philippine Pesos)

	Note	June 30, 2011 (Unaudited)	June 30, 2010 (Unaudited)
COMMON STOCK	24		
Balance at beginning of year		P 376,824,940	P 269,160,674
Stock dividends		113,047,475	
Additional issuance during the year		-	-
Balance at end of year		489,872,415	269,160,674
PREFERRED STOCK	24		
Balance at beginning of year		5,000,000	
Balance at end of year		P 5,000,000	-
ADDITIONAL PAID-IN CAPITAL	24		
Balance at beginning of year		802,778,234	261,614,249
Additions		-	5,674,775
Balance at end of year		802,778,234	267,289,024
DEPOSITS ON FUTURE STOCK SUBSCRIPTIONS	24	-	44,625,000
TREASURY SHARES - At Cost	24		
Balance at beginning of quarter		-	(17,252,140)
Additional purchases during the quarter		-	(1,057,000)
Less: Sales during the quarter		-	11,443,213
Balance at end of quarter		-	(6,865,928)
RETAINED EARNINGS			
Balance at beginning of year		1,276,604,552	970,711,739
Net profit		305,492,832	135,415,273
Stock dividends	24	(113,047,475)	-
Cash dividends	24	(66,432,494)	-
Balance at end of year		1,402,617,415	1,106,127,012
TOTAL EQUITY		P 2,700,268,064	P 1,680,335,783

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
(A Subsidiary of P-H-O-E-N-I-X Petroleum Holdings, Inc.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SEMESTER ENDED June 30, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	For six Months January to June 30		For three Months April to June 30	
		2011	2010	2011	2010
REVENUES					
Sale of goods - net		P 13,874,144,448	P 6,058,329,587	P 7,807,158,131	P 3,393,223,357
Sale of Real Estate			45,785,096		-
Fuel service, storage income and other revenue		104,595,091	83,881,745	60,545,798	41,335,938
		13,978,739,538	6,187,996,428	7,867,703,929	3,434,559,295
COST AND EXPENSES					
Cost of sales and services	17, 18	12,998,688,179	5,642,034,987	7,398,867,177	3,176,184,294
Cost of Sales on Real Estate			34,754,376		-
Selling and administrative expenses	18	495,640,220	285,816,555	265,014,888	150,542,307
	18	13,494,328,399	5,962,605,919	7,663,882,065	3,326,726,601
OTHER INCOME (CHARGES)					
Finance costs-Net		(169,216,660)	(87,058,462)	(77,286,294)	(43,288,637)
Others		(5,025,963)	2,936,607	(4,786,551)	2,045,453
		(174,242,622)	(84,121,855)	(82,072,845)	(41,243,184)
INCOME BEFORE TAX		310,168,517	141,268,654	121,749,019	66,589,509
PROVISION FOR INCOME TAX	22	(4,675,685)	(5,853,381)	(1,396,128)	(1,197,665)
NET PROFIT		P 305,492,832	P 135,415,273	P 120,352,891	P 65,391,844
Earnings per share	25	P 0.67	P 0.51		

See Notes to Consolidated Financial Statements.

(A Subsidiary of P-H-O-E-N-I-X Petroleum Holdings, Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	June 30, 2011 (Unaudited)	June 30, 2010 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax before Bad Debts		305,492,832	135,415,273
Adjustments for:			
Bad Debts		-	
Interest expense		172,436,644	115,059,189
Depreciation and amortization	12	81,253,577	40,321,692
Interest income		(3,219,984)	(28,000,727)
Operating income before working capital changes		555,963,069	262,795,428
Increase in trade and other receivables		494,258,587	(383,708,305)
Decrease (increase) in inventories		(1,186,748,128)	(478,348,203)
Decrease (increase) in restricted deposits		(17,565,615)	(701,025)
Increase in input value-added tax		(113,280,423)	9,430,972
Increase in other current assets		(36,340,691)	1,112,989
Decrease (increase) in Installment Receivable		18,005,640	34,581,006
Increase (Decrease) in trade and other payables		(866,028,376)	(630,470,434)
Cash generated from (used in) operations		(1,151,735,938)	(1,185,307,572)
Net Cash From (Used in) Operating Activities		(1,151,735,938)	(1,185,307,572)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net acquisitions of property and equipment	12	(554,187,181)	(298,828,879)
Net increase in other non-current assets		(162,011,435)	(13,210,348)
Interest received		3,219,984	28,000,727
Net Cash From (Used) in Investing Activities		(712,978,632)	(284,038,499)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (Decrease) increase in loans and borrowings		1,884,006,646	1,628,396,213
Interest paid		(172,436,644)	(115,059,189)
Borrowings from related parties	24	(53,106,188)	(275,282)
Increase in non-current liabilities			
Increase in additional paid-in capital	25		5,674,775
Increase (Decrease) in non-current liabilities		115,999,657	5,973,722
Proceeds from issuance of treasury stock	25	-	10,386,213
Payments of cash dividends	25	(66,432,494)	-
Net Cash From (Used) Financing Activities		1,708,030,977	1,535,096,452
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(156,683,593)	65,750,381
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6	605,444,745	365,957,067
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6	448,761,152	431,707,448

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND DECEMBER 31, 2010
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the Parent Company) was incorporated in the Philippines on May 8, 2002 and is 54% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines, as of December 31, 2010 and 2009, respectively.

The Parent Company was listed with the Philippine Stock Exchange (PSE) on July 11, 2007 and is presently engaged in trading of petroleum products on wholesale basis and operating of oil depots, storage facilities and allied services.

PPHI was incorporated in the Philippines on May 31, 2006 but has not started commercial operations. 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 of the Group is the Udenna Corporation, which is engaged in the acquisition, development, management and operation of real estate. 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 190 service stations, including 43 service stations in Luzon, 6 in Visayas and 141 in Mindanao operating as of June 30, 2011 and there are a total of 31 service stations under construction as of June 30, 2011.

The Parent Company holds the following interests in the following subsidiaries as of December 31:

	2010
P-F-L Petroleum Management, Inc. (PPMI)	**100%**
P-H-O-E-N-I-X Global Mercantile, Inc. (PGMI)	**100%**
Bacnotan Industrial Park Corporation (BIPC)	**100%**
Petroterminals Philippines Corporation (PPC)	**-**
Petrologistix Services Corp. (PSC)	**-**

On December 2, 2010, the Securities and Exchange Commission (SEC) approved the merger of PPC and PSC with the Parent Company. Per application approved by SEC, the merger is effective on December 2, 2010. PPC and PSC were 100% subsidiary of the Parent Company prior to merger.

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 SEC on January 31, 2007.

PGMI which was registered with SEC on July 31, 2006 and 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.

BIPC is engaged in real estate development. BIPC was registered with SEC on March 7, 1996. BIPC 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 BIPC's project, the Phoenix Petroleum Industrial Park (Park), formerly Batangas Union Industrial Park, located at Km. 117, National Highway, Calaca, Batangas.

PPC was created to conduct and carry on the business of manufacturing, processing, trading and delivery of petroleum and other chemical products and to engage in the business of operating oil depots and storage facilities. PPC was originally registered with the Securities and Exchange Commission (SEC) on March 26, 2007 and was merged with the Parent Company on December 2, 2010.

Prior to merger with the Parent Company on December 2, 2010, PSC was engaged in providing hauling, trucking services, and other logistics services. PSC was originally registered with the SEC on January 31, 2007.

The registered office of the Parent Company and PGMI, which is also their principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

PPMI registered office is located at Penthouse, Valero Tower, 122 Valero Street, Salcedo Village, Makati City and its principal place of business is located at located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

BIPC'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 financial statements of the Parent Company and Subsidiaries (the Group) for the year ended December 31, 2010 (including the comparatives for the years ended December 31, 2009 and 2008) were authorized for issue by the Group's President and Chief Executive Officer on January 18, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these 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 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 (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The 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 financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated. Functional currency is the currency of the primary economic environment in which the Group operates.

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

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

(a) *Effective in 2010 that are Relevant to the Group*

In 2010, the Group adopted the following new revisions and amendments to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2010:

PAS 27 (Revised 2008)	:	Consolidated and Separate Financial Statements
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 2 (Amendment)	:	Group Cash-settled Share-based Payment Transactions
PFRS 3 (Revised)	:	Business Combination
Philippine Interpretation IFRIC 17	:	Distribution of Non-cash Assets to Owners
Philippine Interpretation IFRIC 18	:	Transfer of Assets from Customers
Various Standards	:	2009 Annual Improvements to PFRS

Discussed below are the effects on the financial statements of the new and amended standards.

(i) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value and a gain or loss is recognized in profit or loss. The adoption of the standard did not result in any adjustment to the financial statements as there were no transactions with non-controlling interests during the year.

(ii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective from July 1, 2009). The amendment clarifies the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment did not have a significant impact on the Group's financial statements

(iii) PFRS 2 (Amendment), *Group Cash-settled Share-based Payment Transactions*, (effective from January 1, 2010). The amendment clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled. The amendment did not have a significant impact on the Group's financial statements.

(iv) PFRS 3 (Revised), *Business Combinations* (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Group did not have any business acquisition during the year, hence, the adoption of the revised standard has no effect on the 2010 financial statements.

(v) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Group's adoption of this interpretation did not have a material impact on the financial statements because retrospective application of this interpretation is not permitted and, therefore, did not have any effect on any previous distribution of non-cash assets to stockholders. In addition, the Group did not distribute non-cash assets to stockholders during the year.

(vi) Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers* (effective from July 1, 2009). This interpretation provides guidance on how to account for items of property, plant and equipment received from customers; or cash that is received and used to acquire or construct specific assets. It is only applicable to agreements in which an entity receives from a customer such assets that the entity must either use to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. The Group determined that the adoption of this interpretation had no material effect on its financial statements.

(vii) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to Philippine Financial Reporting Standards 2009*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009, or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements* (effective from January 1, 2010). The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. The Group determined that the adoption of this amendment had no material effect on its financial statements.

- PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not have a material impact on the financial statements since only recognized assets are classified by the Group as cash flow from investing activities.

- PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.

- PAS 18 (Amendment), *Revenue* (effective from January 1, 2010). The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.

- PAS 36 (Amendment), *Impairment of Assets* (effective from January 1, 2010). PAS 36 clarifies that the largest unit permitted for the purpose of allocating goodwill to cash-generating units for goodwill impairment is the operating segment level defined in PFRS 8 before aggregation. This amendment did not have material impact on the Group's financial statements.

- PAS 38 (Amendment), *Intangible Assets* (effective from July 1, 2009). The amendment clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. This amendment did not have a material impact on the Group's financial statements.

- PFRS 2 (Amendment), *Share-based Payment* (effective from July 1, 2009). The amendment confirms that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of PFRS 2. The amendment did not have a material impact on the Group's financial statements.

- PFRS 8 (Amendment), *Operating Segments* (effective from January 1, 2010). It clarifies that a measure of segment assets should be disclosed only if the amount is regularly provided to the chief operating decision maker (CODM). The Group reports total assets for each of its reportable segments as they are regularly provided to the CODM; hence, there is no significant effect on the Group's segment reporting.

- Philippine Interpretation IFRIC 9, *Embedded Derivatives – Amendments to IFRIC 9 and PAS 39* (effective for annual periods ending on or after June 30, 2009). The amendment clarifies that IFRIC 9 does not apply to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture. As the Group has no embedded derivatives, the amendment did not have any effect on its financial statements.

(b) Effective in 2010 but not relevant to the Group

The following interpretation and amendments to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but are not relevant to the Group's financial statements:

Philippine Interpretation IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments
Philippine Interpretation IFRIC 16 (Amendment)	:	Hedges of a Net Investment in a Foreign Operation
PFRS 1 (Amendment)	:	Additional Exemptions for First-time Adopters

(c) Effective Subsequent to 2010

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Management has initially determined the following, which the Group will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.

(ii) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective on or before January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19 surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its financial statements because its pension plan is unfunded.

(iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective on or after July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with PAS 39;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

Management has determined that the adoption of the interpretation will not have a material effect on its financial statements as it does not normally extinguish financial liabilities through equity swap.

(iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective for annual periods beginning on or after July 1, 2011). The amendment will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Group believes that adoption of the amendment in 2012 will not have any significant effect on its financial statements as they only affect disclosures and the Group usually provides adequate information in its financial statements in compliance with disclosure requirements.

PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):

- o Phase 1: Classification and Measurement
- o Phase 2: Impairment Methodology
- o Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being developed.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published at which time the Group expects it can comprehensively assess the impact of the revised standard.

(v) 2010 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to Philippine Financial Reporting Standards 2010* (the 2010 Improvements). Most of these amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2010. The 2010 Improvements amend certain provisions of PFRS 3 (Revised 2008), clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Group's preliminary assessments indicate that the 2010 Improvements will not have a material impact on its financial statements.

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 material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate an impairment are recognized in the consolidated financial statements.

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

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

Subsidiaries are all entities over which the Parent Company has the power to control the financial and operating policies. The Parent Company obtains and exercises control through voting rights.

Subsidiaries are consolidated from the date the Parent Company obtains control until such time that such control ceases.

Acquired subsidiaries are subject to the application of the purchase method for acquisitions. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiaries, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiaries prior to acquisition. On initial recognition, the assets and liabilities of the subsidiaries are included in the statement of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

Goodwill (positive) represents the excess of acquisition cost over the Group's share in the fair value of the identifiable net assets of the acquired subsidiaries at the date of acquisition (see Note 14). Negative goodwill represents the excess of Parent Company's share in the fair value of identifiable net assets of the subsidiaries at date of acquisition over acquisition cost (see Note 30).

2.4 Financial Assets

Financial assets, which are recognized when the Group becomes a party to the contractual terms of the financial instrument, include cash and other financial instruments. Financial assets are classified into the following categories: financial assets at fair value through profit or loss, 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. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

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

A more detailed description of the loans and receivable category of financial assets which is relevant to the Group is presented in the next page.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in profit or loss. 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 cash flows.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables - Net, Due from Related Parties, Restricted Deposits, Installment Contract Receivables and Refundable Rent Deposits (presented as part of Other Non-Current Assets in the consolidated statements 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.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.5 Inventories

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

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

2.6 Land Held for Sale and Land Development Costs

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

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 Property and Equipment

Property and equipment, other than land which is stated at cost less any impairment in value, are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

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. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

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

Buildings, depot and pier facilities	5-25 years
Transportation and other equipment	1-10 years
Hauling and heavy equipment	1-5 years
Gasoline station equipment	1-5 years
Office furniture and equipment	1-3 years

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing cost and other direct costs (see Note 2.17). 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 2.15).

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.

2.8 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 Financial Liabilities

Financial liabilities include Interest-bearing Loans and Borrowings, Trade and Other Payables, Due to Parent Company and Security Deposits (presented under Other Non-Current Liabilities in the consolidated statements of financial position) which are measured at amortized cost using the effective interest method.

Financial liabilities are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of comprehensive income.

Interest-bearing loans and borrowings are raised for support of long-term funding of operations. They are recognized at proceeds received, net of direct issue costs.

Trade and other payables, due to parent company and security deposits are initially recognized at their fair value and subsequently measured at amortized cost.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration of the Group.

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

2.10 Provisions

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the 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.

2.11 Business Combinations

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

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost a business combination over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.15) and is presented under Other Non-current Assets account in the consolidated statements of financial position (see Note 14).

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

2.12 Revenue and Expense Recognition

Revenue comprises revenue from the sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding value-added tax (VAT) 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, specific recognition criteria must also be met before revenue is recognized as discussed below:

(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.

(b) *Fuel service, storage income and other revenues* – 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. Revenue from port operations is recognized when services are rendered.

(c) *Interest income*– Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

(d) *Rent income* – Revenue is recognized over the lease term as it becomes receivable according to the provision of the lease.

(e) *Sale of real estate* – Revenue from the sale of real estate, which includes cost of land and development, is accounted for under the percentage of completion method when the Group has material obligations under the sales contracts to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured on the basis of the ratio of actual cost incurred to date over the estimated total costs of the project as determined by the Group's contractors and technical personnel.

Any excess of collections over the recognized receivables is included under Trade and Other Payables account in the consolidated statement of financial position.

If none of the revenue recognition criteria are met, deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is presented as part of advances from locators included under Trade and Other Payables account (see Note 16).

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

2.13 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are directly charged against profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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 fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.14 Foreign Currency Transactions

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

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

2.15 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.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro rata to the other assets in the cash generating unit.

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

2.16 Employee Benefits

(a) *Post-employment Benefits*

Post-employment benefits are provided to employees through 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 for funding the defined benefit plan have been acquired. Plan assets 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 pension plan is tax-qualified and non-contributory.

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

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

(b) *Compensated Absences*

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

(c) Share-Based Payments

All regular employees of the Parent Company receive remuneration in the form of share-based awards - equity instruments of the Parent Company, in consideration for the services that they render to the Parent Company.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using the market price of the Parent Company's shares listed in the Philippine Stock Exchange.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in the statement of comprehensive income for the year represents the movement in cumulative expense recognized at the beginning and end of that year.

No expense is recognized for awards that do not ultimately vest.

2.17 Borrowing Costs

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

2.18 Income Taxes

Tax income 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 each 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 income in profit or loss.

Deferred tax is provided using the liability method on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as component of tax income in the consolidated statement of comprehensive income. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

2.19 Related Party Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

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

2.20 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.

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

Treasury shares are stated at the cost of re-acquiring such shares irrespective of whether these are acquired below or above par value.

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

2.21 Basic Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. The Group has no dilutive potential common shares outstanding that would require disclosure of diluted earnings per share in the consolidated statement of comprehensive income.

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) Operating and Finance Leases

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

(b) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.10 and relevant disclosure is presented in Note 29.

(c) 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.

3.2 Key Sources of Estimation Uncertainty

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

(a) Allowance for Impairment of Trade and Other Receivables

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables amounted to P2.6 billion and P1.4 billion as at December 31, 2010 and 2009, respectively (see Note 7).

Impairment losses on trade and other receivables amounted to P56.5 million in 2010 and P1.2 million in 2009 which are presented as part of Finance Costs account in the consolidated statement of comprehensive income (see Note 20).

(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 (P1.05 billion as at December 31, 2010 as presented in Note 8) is affected by price changes. 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 (P451.6 million and P533.5 million as of December 31, 2010 and 2009, respectively – see Note 9 and land held for future development amounting to P315.9 million as at December 31, 2010 and 2009 – see Note 13) is affected by price changes in different market segments. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments within the next financial year.

(d) *Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment 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 are analyzed in Note 12. Based on management's assessment as at December 31, 2010, there is no change in the estimated useful life of the property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in Note 2.15. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

The management has assessed that there are no impairment losses to be provided in 2010 and 2009.

(f) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The carrying value of deferred tax assets as of December 31, 2010 and 2009 is disclosed in Note 24.

(g) Liability for Land Development

Obligations to complete development of real estate are based on actual costs and project estimates of contractors and Group's technical staff. These costs are reviewed at least annually and are updated if expectations differ from previous estimates. Liability to complete the project included for land development are presented as part of trade payables under Trade and Other Payables account in the consolidated statements of financial position amounted to P1.1 million as of December 31, 2010 (see Note 16).

(h) Retirement and Other Benefits

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

The retirement benefit obligation amounted to P5.5 million and P4.2 million as of December 31, 2010 and 2009, respectively (see Note 21.2).

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 Board of Directors, and focuses on actively securing the Group's short- to medium-term cash flows by minimizing the exposure to financial markets.

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

4.1 Market Risk

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

(a) Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's 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. As of December 31, 2010 and 2009, the Group has no dollar denominated liabilities.

(b) Interest Rate Sensitivity

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowing interest rates range from 7.16% to 10.25% per annum. At December 31, 2010 and 2009, 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 15). All other financial assets and liabilities have fixed rates.

The following table illustrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates of +- 1.82%, +/- 1.82% in 2010. This changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	2010	
	+ 182/ 88	- 182/ 88
Profit before tax	**(53,061,680)**	**53,051,680**

4.2 Credit Risk

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

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate 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	June 30, 2011	December 31, 2010
Cash and cash equivalents (excluding cash on hand)	6	**P 446,234,907**	P 602,139,606
Trade and other receivables - net	7	**2,098,586,808**	2,592,845,395
Due from related parties	24	**14,750,495**	14,750,495
Restricted deposits	10, 14	**90,988,331**	74,630,806
Refundable rent deposits	14	**54,109,141**	47,758,188
Installment contract receivable		**22,507,026**	18,005,640
		P 2,727,176,707	P 3,350,130,130

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

(a) Cash and cash equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

As part of the Group's policy, bank deposits are only maintained with reputable financial institutions. For the determination of credit risk, cash do not include cash on hand amounting to P2,526,245 in June 30, 2011 and P3,305,139 in December 31, 2010 (see Note 6). Cash in banks, which are insured by the Philippine Deposit Insurance Corporation up to maximum coverage of P500,000 per depositor per banking institution, as provided for under Republic Act (RA) 9302, *Charter of Philippine Deposit Insurance Corporation*, are still subject to credit risk.

(b) Trade and other receivables

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management consider 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 incorporate 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 receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	June 30, 2011	December 31, 2010
Not more than one month	**P 166,391,068**	P 100,038,064
More than one month but not more than two months	**26,438,767**	35,484,465
More than two months but not more than six months	**91,558,090**	21,812,750
More than six months but not more than one year	**13,168,787**	8,175,561
More than one year	**19,326,724**	26,300,188
	P 327,776,601	P 191,811,028

4.3 Liquidity Risk Analysis

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

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

As of December 31, 2010, the Group's liabilities have contractual maturities which are summarized as follows:

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 3 years
Interest-bearing loans and borrowings	P2,744,304,260	P 27,864,010	P 851,922,810
Trade and other payables	1,572,286,972	65,006,389	-
Due to a related party	53,106,188	-	-
Security deposits	-	-	53,072,027
	P4,369,697,420	**P 92,870,399**	**P 904,994,837**

This compares to the maturity of the Group's financial liabilities as of December 31, 2009 as follows:

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 3 years
Interest-bearing loans and borrowings	P 1,585,580,604	P 4,825,314	P 908,901,613
Trade and other payables	1,022,823,128	36,437,511	-
Due to a related party	53,114,682	-	-
Security deposits	-	-	35,598,063
	P2,661,518,414	P 41,262,825	P 944,499,676

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

5. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

5.1 Comparison of Carrying Amounts and Fair Values

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

	Notes	**2010**	
		Carrying Values	**Fair Values**
Financial Assets			
Loans and receivables:			
Cash and cash equivalents	6	**P 605,444,475**	**P 605,444,475**

Trade and other receivables	7	**2,592,845,395**	2,592,845,395
Due from related parties	24	**14,750,495**	14,750,495
Restricted deposits	10, 14	**74,630,806**	74,630,806
Refundable rent deposits	14	**47,758,188**	47,758,188
Installment contract receivable		**18,005,640**	18,005,640
		P3,353,434,999	P3,353,434,999

	Notes	2010 Carrying Values	2010 Fair Values
Financial Liabilities			
Financial liabilities at amortized cost:			
Interest-bearing loans and borrowings	15	**P3,427,052,637**	**P3,427,052,637**
Trade and other payables	16	**1,637,293,361**	**1,637,293,361**
Due to parent company	24	**53,106,188**	**53,106,188**
Security deposits	17	**53,072,027**	**53,072,027**
		P 5,170,524,213	**P 5,170,524,213**

5.2 Fair Value Hierarchy

The Group adopted the amendments to PFRS 7, *Improving Disclosures about Financial Instruments*, effective January 1, 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the statement of financial position. In the first year of application comparative information need not be presented for the disclosures required by the amendment. In accordance with this amendment, financial assets and liabilities measured at fair value in the statement of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the levels as disclosed below.

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (as prices) or indirectly (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 financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

As of December 31, 2010 and 2009, the Group has no financial assets and liabilities measured at fair value in the consolidated statements of financial position.

The carrying and fair values of those financial assets and liabilities presented in the consolidated statements of financial position at their carrying values are summarized in Note 5.1.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of:

	June 30, 2011	December 31, 2010
Cash in banks	**P 440,081,350**	P 523,179,606
Short-term placements	**6,153,557**	78,906,000
Cash on hand	**2,526,245**	3,305,139
	P 448,761,152	P 605,444,745

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have maturity ranging from 7 to 90 days and earn effective interest ranging from 2.15% to 4.8% per annum in 2011 and 2010.

The balances of the cash on hand and in banks as of June 30, 2011 and December 31, 2010 did not include an amount of P91 million and P73.4 million, respectively, which is shown as Restricted Deposits account in the statements of financial position (see Notes 10 and 14). Such amount is not available for the general use of the Group in accordance with a restriction under a loan covenant (see Note 15.1).

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	June 30, 2011	December 31, 2010
Trade receivables	**P 1,980,274,733**	P 2,018,054,235
Advances to suppliers	**122,709,594**	555,899,104
Installment Receivable	**22,507,025**	-
Non-trade receivables	**24,359,686**	52,797,910
Other receivables	**7,266,213**	22,624,589
	1,994,052,351	2,649,375,838
Allowance for impairment	**(58,530,443)**	(56,530,443)
	P2,098,586,808	P 2,592,845,395

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade and other receivables, which are due from customers, were found to be impaired, hence, adequate amount of allowance for impairment have been recorded.

A reconciliation of the allowance for impairment at the beginning and end of 2010 and 2009 is shown below:

	Note	2010
Balance at beginning of year		**P 231,575**
Impairment loss during the year	20.1	**56,530,443**
Write-off of receivables		**(231,575)**
Balance at end of year		**P 56,530,443**

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

8. INVENTORIES

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

	Note	June 30, 2011	December 31, 2010
Fuel		**P2,075,668,979**	P 900,181,181
Lubricants		**162,738,076**	151,477,747
	18.1	**P2,238,507,055**	P 1,051,658,928

Under the terms of agreements covering the liabilities under trust receipts, certain inventories 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 15.1).

There were no inventory write-down both in June 30, 2011 and December 31, 2010.

An analysis of the cost of inventories included in the cost of fuels and lubricants sold for the year is presented in Note 18.1.

9. LAND HELD FOR SALE AND LAND DEVELOPMENT COSTS

The land held for sale and land development costs relate to the following as of Below periods:

	June 30, 2011	December 31, 2010
Land held for sale	**P 433,484,266**	P 413,484,266
Land development costs	**18,102,852**	18,102,852
	P 451,587,118	P 451,587,118

Land development costs pertain to expenditures for the development and improvement of the land held for sale for Phase 1 of the Park (see Note 1).

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 Note 15.1). As such, these are restricted as to withdrawals. The proceeds from availment of these banking credit facilities by the Group are used for the purpose of purchasing fuel and lubricant supplies. Interest rates for this type of deposit ranges from 3.125% to 5.975% per annum in 2011 and 2010.

11. OTHER CURRENT ASSETS

The composition of this account as of June 30, 2011 and December 31, 2010 is shown below:

	June 30, 2011	December 31, 2010
Prepayments	**P 71,524,098**	P 44,300,527
Creditable withholding tax	**8,992,939**	3,796,093
Supplies	**2,763,658**	3,500,554
Others	**6,492,008**	1,834,838
	P 89,772,703	P 53,432,012

12. PROPERTY AND EQUIPMENT

June 30, 2011		
Land		P 164,684,194
Property, Plant and Equipments	3,131,860,066	
Less: Accumulated Depreciation	(465,567,496)	2,666,292,570
Net Book Value-June 30, 2011		P 2,830,976,764

December 31, 2010		
Land		P 164,684,194
Property, Plant and Equipments	2,596,626,526	
Less: Accumulated Depreciation	(403,267,560)	2,193,358,966
Net Book Value-December 31, 2010		P 2,358,043,160

Certain property and equipment with an aggregate carrying value of P31, 431,132 and P30,656,433 as of June 30, 2011 and December 31, 2010 respectively, are mortgaged with local banks (see Note 15).

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 are intended for sale once developed.

Certain land with carrying value of P174.6 million as of June 30, 2011 and December 31, 2010 are used as collaterals for certain interest-bearing loans and borrowings (see Note 15.2).

14. OTHER NON-CURRENT ASSETS

The composition of this account as of periods is shown below:

	June 30, 2011	December 31, 2010
Refundable rent deposits	**P 54,109,141**	P **41,080,138**
Goodwill	**9,344,134**	9,344,134
Deferred minimum lease payments	**6,678,050**	**6,678,050**
Restricted time deposits	**335,826**	1,208,090
Investment on JV Company	**150,000,000**	
Others	**608,517**	**1,093,810**
	P 221,075,668	P **59,404,222**

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

Goodwill amounting to P9.3 million 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.

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.

15. INTEREST-BEARING LOANS AND BORROWINGS

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

	June 30, 2011	December 31, 2010
Current:		
Liabilities under letters of credits and trust receipts	**P3,985,524,516**	P 2,335,435,892
Installment and notes payable	**585,500,000**	454,735,133
Mortgage payable	**13,634,542**	13,531,140
	P4,584,659,058	P 2,703,702,165
Non-current:		
Installment and notes payable	**P 489,894,400**	P 450,617,655
Mortgage payable	**236,505,825**	272,732,817
	P 726,400,225	P 723,350,472

15.1 Liabilities Under Letters of Credits and Trust Receipts

The Group avails of letter of credit (LC) and trust receipt (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 7.25% per annum.

The Group is required by the banks to maintain certain collaterals for the credit line facility provided to the Group for working capital requirement. The collaterals are in the form of compensating deposits and a surety of a stockholder (see Notes 10 and 25.6).

The carrying values of liabilities under letters of credits and trusts receipts recognized as part of interest-bearing loans and borrowings in the consolidated statements of financial position are reasonable approximations of their fair values.

15.2 Installment and Notes Payable

The installment payable in 2009 represents the Group's liability to PHINMA Group for the purchase of the 100% shares of stocks of BIPC (see Note 30). The installment payable bears interest at Philippine Dealing System Treasury-Fixing (PDST-F) rate plus three percent. Such is payable monthly starting on the seventh month from the date of signing of the agreement on March 10, 2009 until March 15, 2014. The installment payable is secured by the shares of stock of BIPC amounting to P600.0 million.

On April 16, 2010, the Group availed the P580.0 million loan with the Land Bank of the Philippines (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 certain industrial lots presented under land held for future development (see Note 13).

The notes payable represents borrowings from local banks with interest rates ranging from 7% to 10.25% per annum and will mature within five to seven years. The loans which are secured by the Group's various parcels of land and depot facilities (see Note 12) and BIPC's port expansion facilities with carrying values of P90.4 million is payable quarterly (see Note 12).

15.3 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).

15.4 Credit Line

The Parent Company has an available credit line of P3.2 billion under LC and TR. 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 the PPHI and pledge of its share in the Parent Company; and
(c) JSS of certain stockholders

Interest expense for 2010, 2009 and 2008 presented as part of Finance Costs under Other Income (Charges) account in the consolidated statements of comprehensive income amounted to P229.2 million, P102.1 million and P42.5 million (see Note 20.1), respectively, net of the capitalized borrowing cost of P35.2 million in 2010, P37.7 million in 2009 and P5.5 million in 2008.

16. TRADE AND OTHER PAYABLES

This account consists of:

	June 30, 2011	December 31, 2010
Trade payables	**P 662,582,321**	P 1,284,113,044
Advances from customers and locators	**48,340,807**	177,881,535
Accrued expenses	**32,930,584**	135,607,410
Others	**27,930,583**	39,691,372
	P 771,264,985	P 1,637,293,361

The advances from customers and locators include option money from two different locators amounting to P47.0 million for June 30, 2011 and December 31, 2010 respectively. The said locators has 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.

Accrued expenses mostly pertain to payables to various contractors for the construction of retail stations that remains unpaid at the end of the year.

The carrying amount of trade and other payables, which are expected to be settled within the next 12 months from reporting period, is a reasonable approximation of fair value (see Note 5.1).

17. OTHER NON-CURRENT LIABILITIES

This account consists of:

	Note	**June 30, 2011**	December 31, 2010
Security deposits		**P 168,525,612**	P 53,072,027
Retirement benefit obligation	21.2	**5,520,942**	5,520,942
Unearned rent		**3,741,351**	3,195,279
Others		**823,733**	823,733
		P 178,611,638	P 62,611,981

Security deposits represent deposits received from dealers for the lease of 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.

18. COST OF SALES AND SERVICES

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

18.1 Cost of Fuels and Lubricants Sold

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

	Note	**June 30, 2011**	June 30, 2010
Inventories at beginning of year	6	**P 1,051,658,928**	P 457,924,415
Net purchases during the period		**14,212,691,279**	5,972,898,735
Goods available for sale		**15,264,350,207**	6,430,823,150
Inventories at end of the period	6	**(2,238,407,055)**	(841,632,720)
		P13,025,943,152	P 5,589,190,430

19. OPERATING EXPENSE BY NATURE

The details of operating expenses by nature are shown below:

	June 30, 2011	June 30, 2010
Cost of Sales and Service		
Fuels	**12,696,850,081**	5,494,658,580
Lubricants	**125,965,012**	94,531,850
Real Estate		34,754,376
Services	**54,809,551**	52,844,557
Salaries and employees' benefits	**68,688,919**	45,450,145
Depreciation and amortization	**81,253,577**	40,321,692
Trucking charges	**32,219,240**	20,263,745
Fuel, oil and lubricants	**22,284,155**	14,586,933
Advertisements and promotion	**44,956,360**	18,732,273
Rent	**67,461,024**	47,532,268
Office supplies	**3,404,433**	3,186,975
Repairs and maintenance	**19,168,725**	9,417,379
Travel and transportation	**12,521,640**	9,801,167
Professional fees	**12,763,113**	9,939,706
Taxes and licenses	**12,101,965**	7,028,339
Representation	**6,777,801**	3,911,213
Insurance	**16,173,492**	12,087,264
Documentary Stamps	**29,125,233**	11,051,586
Security fees	**5,940,217**	2,358,153
Dues and Subscription	**2,348,431**	1,643,583
Service Fee	**15,302,283**	9,411,003
Utilities	**10,882,968**	7,836,757
Bank Charges	**7,375,955**	3,750,905
Provisions for Bad Debts	**1,800,000**	1,200,000
Rebates	**10,345,545**	3,744,980
Miscellaneous	**7,045,086**	2,560,489
	13,367,564,807	**5,962,605,918**

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

	Note	June 30, 2011	June 30, 2010
Cost of sales and services	18	**P 12,877,624,645**	P 5,676,789,363
Operating expenses		**489,940,162**	285,816,554
		P 13,367,564,807	P 5,962,605,918

20. SALARIES AND EMPLOYEE BENEFITS

20.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits (see Note 19) are presented below:

	June 30, 2011	June 30, 2010
Salaries and Wages	**P 47,996,950**	P 33,582,777
13th Month Pay	**8,029,248**	3,774,383
Other Benefit and Bonuses	**12,662,721**	8,092,985
	P 68,688,919	**P 45,450,145**

21.2 Post-employment Benefits

The Group has an unfunded post-employment benefit plan covering all qualifying employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. The present value of the obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The amount of retirement benefit obligation, which is presented as part of Other Non-current Liabilities account (see Note 17) in the consolidated statements of financial position as of December 31 follows:

	2010
Present value of obligation	P 6,251,207
Unrecognized actuarial losses	(730,265)
	P 5,520,942

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	2010
Balance at beginning of year	P 4,976,200
Current service cost	900,155
Interest cost	374,852
Actuarial loss	-
Balance at end of year	P 6,251,207

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

	Note	2010
Current service cost		P 900,156
Interest cost		374,852
Actuarial loss (gain) recognized during the year		-
	21.1	P 1,275,008

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

Presented below is the historical information related to the present value of the retirement benefit obligation and the experienced adjustments arising on plan liabilities.

		2010
Present value of the obligation	P	6,251,207
Experience adjustments arising on plan liabilities		-

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

	2010
Discount rate	10.44%
Expected rate of salary increase	10.00%

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

The Parent Company commission third party actuarial company to an actuarial valuation is every end of year.

21. REGISTRATION WITH THE BOARD OF INVESTMENTS (BOI)

22.1 BOI Registration as New Industry Participant – Davao Depot

The Parent Company was registered with the BOI on November 16, 2005, as new a industry participant with new investment in storage, marketing and distribution of petroleum products under RA No. 8479 (Downstream Oil Industry Deregulation Act). Under its registration, the 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 November 16, 2005 without extension or bonus year from the date of registration;

(b) Additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to number of workers set by the board of not more than US$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH;

(c) Minimum duty of three percent and VAT on imported capital equipment;

(d) Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment;

(e) Importation of consigned equipment for a period of five years from the date of registration, subject to posting of a re-export bond; and,

(f) Other non-fiscal incentives, which may be applicable.

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

22.2 BOI Registration as New Industry Participant – Batangas Depot

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

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

22.3 BOI Registration for the New Investment in Downstream Oil Industry Activities

On May 14, 2010, the Company was registered with the BOI for the new investment in downstream oil industry activities under RA 8479 (Downstream Oil Industry Deregulation Act) for the additional two storage tanks for petroleum products with storage capacity of 7.4 million liters in Davao depot. Under its registration, the Company shall be entitled to avail of the incentives as cited in the previous page. However, ITH for five years from May 14, 2010 is subjected to the base figure of 148.2 million liters representing the Company's highest attained sales volume of its existing depot facilities (in Davao Depot) prior to the filling of application for registration of new investment.

22.4 BOI Registration as New Industry Participant – Zamboanga Depot

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

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

22. REGISTRATION WITH DAVAO CITY INVESTMENT INCENTIVE CODE OF 1994

The Parent Company was registered with the Davao City Investment Incentive Code of 1994 through Board Resolution Number 3 series of 2004 which was approved on April 29, 2004. As a registered entity under the said ordinance, the Parent Company is granted the following:

(a) Exemption from payment of building permit fees, and other fees and charges;

(b) Exemption from payment of mayor's permit fees, local business sales taxes, and other local fees and charges imposed under existing ordinances for a period of three years to start on the first day of operations; and,

(c) Exemption from payment of the basic real property tax but excluding the barangay share for two years from the effectivity (accrual) of the property tax.

23. TAXES

23.1 Current and Deferred Tax

The components of tax income (expense) as reported in the consolidated profit or loss follow:

	2010	2009
Current tax expense:		
Regular corporate income tax (RCIT) at 30%	**(P 13,234,310)**	(P 1,587,244)
Final tax at 20%	**(127,441)**	(108,651)
	(13,361,751)	(1,695,895)
Deferred tax income:		
Deferred tax income relating to net operating loss carryover (NOLCO)	**6,704,683**	6,959,670
Provision of impairment loss	**4,901,214**	-
Reversal of NOLCO	**(1,650,871)**	(369,088)
Deferred tax relating to reversal of temporary difference	**-**	(283,380)
Relating to tax application of NOLCO	**-**	(26,915)
Deferred tax resulting from reduction in tax rate	**-**	-
	9,955,026	6,280,287
	(P 3,406,725)	P 4,584,392

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax income reported in the consolidated profit or loss is as follows:

	2010	2009
Tax on pretax income (loss) at 30% in 2010 and 2009, and 35% in 2008	**(P 1,766,034)**	P 4,868,812
Adjustment for income subjected to lower income tax rates	**67,715**	54,324
Reversal of NOLCO	**(1,650,871)**	(369,088)
Non-deductible interest expense	**(57,535)**	30,344
Reduction in tax rate	**-**	-
Tax income (expense) reported in profit or loss	**(P 3,406,725)**	P 4,584,392

The Parent Company's availment on income tax holiday pertaining to its existing facilities expired in November 2010. Tax income for the year 2010 pertains to the income of subsidiaries and portion of the Parent Company's income subjected to income tax (see Note

The tax income for the years 2010 pertains to the subsidiaries.

The deferred tax assets relate to the following as of December 31:

	Consolidated Statements of Financial Position	Consolidated Statements of Comprehensive Income
	2010	**2010**
NOLCO	**P 14,822,265**	**P 5,513,689**
Impairment loss	**4,441,337**	**4,441,337**
Retirement benefit obligation	**-**	
Payment of retirement benefits	**-**	**-**
Deferred Tax Income		**P 9,955,026**
Deferred Tax Assets	**P 19,263,602**	

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
2010	P 23,881,864	P 7,164,560	2013
2009	23,198,899	6,959,670	2012
2008	2,326,788	698,035	2011
	P 49,407,551	**P 14,822,265**	

23.2 Optional Standard Deduction

Effective July 2008, RA 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made.

In 2010 , the Group opted to continue claiming itemized deductions.

23.3 Change in Applicable Tax Rates

Effective January 1, 2009, in accordance with RA 9337, RCIT rate was reduced from 35% to 30% and non-allowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

24. RELATED PARTY TRANSACTIONS

The Group's related parties include the ultimate parent company, parent company, stockholders, the Group's key management and others as described below and in the succeeding.

24.1 Sale of Goods

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

The outstanding receivables from sales of goods are presented as part of Trade Receivables under Trad e and Other Receivables account in the statements of financial position (see Note 7).

24.2 Purchase of Services

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

The related outstanding payables for services obtained in 2010 and 2009 are presented as part of Trade Payables under Trade and Other Payables account (see Note 16).

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

24.3 Rentals

The Group has an operating lease agreement with Udenna Corporation, the ultimate parent company.

24.4 Due from Related Parties

The Group grants and obtains unsecured advances to and from parent company and other related companies for working capital purposes. The advances bear a 9% interest per annum and are due on demand.

The breakdown of due from related parties as of June 30, 2011 and December 31, 2010 is as follows:

	June 30, 2011	December 31, 2010
Balance at beginning of year	**P 14,421,693**	P 14,421,693
Additions	**331,634**	331,634
Collections	**(2,832)**	(2,832)
Balance at end of year	**P 14,750,495**	P 14,750,495

The Group's advances to related parties is presented as Due from Related Parties in the consolidated statements of financial position.

The Parent Company also obtains non-interest bearing cash advances from PPHI. Outstanding advances as of December 31, 2010 amounted to P53,106,188, and is presented as Due to Parent Company in the consolidated statements of financial position.

24.5 Advances Subject for Liquidation

In the normal course of business the Group grants advances to employees subject for liquidation. The advances are presented as part of other receivables under Trade and Other Receivables – net in the statements of financial position (see Note 7).

24.6 Loan Collateral

Surety of a stockholder secured the liabilities under letters of credits and trust receipts (see Note 15.1).

25 EQUITY

25.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2010	2009	2008	**2010**	2009	2008
Preferred – cumulative, nonvoting, non-participating, non-convertible into common shares - P1 par value						
Authorized:	50,000,000	-	-	P 50,000,000	P -	P -
Issued and outstanding	**5,000,000**	-	-	**P 5,000,000**	P -	P -
Common shares – P1 par value						
Authorized:						
Balance at beginning of year	**400,000,000**	400,000,000	400,000,000	**P 400,000,000**	P 400,000,000	P400,000,000
Increase in authorized stock	**350,000,000**	-	-	**350,000,000**	-	-
Balance at end of year	**750,000,000**	400,000,000	400,000,000	**P 750,000,000**	P 400,000,000	P400,000,000
Issued:						
Balance at beginning of year	**269,160,875**	188,000,198	145,000,000	**P 269,160,875**	P 188,000,198	P145,000,000
Stock dividends	**107,664,065**	73,660,677	43,000,198	**107,664,065**	73,660,677	43,000,198
Issued during the year	**-**	7,500,000	-	**-**	7,500,000	-
Balance at end of year	**376,825,940**	269,160,875	188,000,198	**P 376,825,940**	P 269,160,875	P188,000,198
				P 381,824,940	P 269,160,875	P188,000,198

On September 7, 2010, the SEC approved the Parent Company's increased in authorized capital stock from P400,000,000 divided into 400,000,000 common shares with a par value of P1 per share to P800,000,000 divided into 750,000,000 common shares with par value of P1 per share and 50,000,000 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 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.

As of December 31, 2010 and 2009, the Parent Company has 38 stockholders owning 100 or more shares each of the Parent Company's capital stock.

25.2 Additional Paid-in Capital

In 2010, the Parent Company issued 5,000,000 of its preferred shares at P100 per share. The excess of par value for such subscription amounting to P495,000,000 was recorded as part of Additional Paid-in Capital account in the 2010 consolidated statement of financial position. In addition, the excess of the selling price over the acquisition cost of the treasury shares sold in 2010 also constitutes the Additional Paid-in Capital account.

In 2009, the Social Security System (SSS) has bought an initial 2.83% stake in the Parent Company representing 7,500,000 subscribed common shares for P42,000,000 or at P5.60 per share. The excess of par value for such subscription amounting to P34,500,000 was recorded under Additional Paid-in Capital account in the 2009 consolidated statement 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 P227,114,249 were recorded under Additional Paid-in Capital account in the 2007 consolidated statement of financial position.

25.3 Retained Earnings

On June 15, 2010, the stockholders ratified the Board of Directors' approval of a 40% stock dividends (or a total of 107,664,265 shares), valued at par and distributed on October 21, 2010 to all stockholders of record as of September 24, 2010. In addition, cash dividends of five centavos per share totaling to P13,656,430 were also declared and paid in 2010.

On May 29, 2009, the Parent Company's stockholders ratified the Board of Directors' approval of a 40% stock dividends (or a total of 73,660,677 shares), valued at par and distributed on August 3, 2009 to all stockholders of record as of July 8, 2009.

On May 8, 2008, the Parent Company's Board of Directors declared a 30% stock dividends (or a total of 43,000,198 shares), valued at par and distributed on August 8, 2008 to stockholders of record as of July 17, 2008. In addition, 10% cash dividends amounting to P14,500,002 were also declared and paid in 2008.

26.6 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:

	June 30, 2011	December 31, 2010
Total liabilities	**P 6,260,935,906**	P5,180,064,167
Total equity	**2,700,268,064**	2,461,207,725
Debt-to-equity ratio	**2.32 : 1.0**	2.10 : 1.0

The increase of the total liabilities in 2010 is the result of the additional borrowings for the procurement of petroleum and construction of depot facilities and retail stations. The increase in equity is due to the accumulated earnings and subscription of preferred 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.

26 BASIC EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	June 31, 2011	June 30, 2010
Net profit pertaining to common shares	**P 276,742,832**	P 135,415,273
Divided by weighted average number of outstanding common shares	**411,367,224**	266,086,471
Earnings per share	**P 0.67**	P 0.51

27 COMMITMENTS AND CONTINGENCIES

27.1 Capital Commitments

As of December 31, 2010, the Group has commitments of more than P1.2 billion 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 161opened retail service stations as of December 31, 2010. An additional of 38 other retail service stations were under various stages of completion as of December 31, 2010.

In 2010, the Group plans to expand further its petroleum retail service stations and carry out its investments in it 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.

27.2 Letters of Credits

As of June 30, 2011 and December 31, 2010the Parent Group has unused letters of credit amounting to P 2 billion and P1.2 billion, respectively.

27.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under several operating leases. The leases have terms ranging from 2 to 5 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:

	2010
Within one year	**P 107,693,075**
After one year but not more than five years	**312,372,494**
More than five years	**799,718,282**
	P 1,219,783,851

27.4 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases with third parties. The leases have terms ranging from 2 to 10 years, with renewal options, and include annual escalation rates of 2% to 10%. The future minimum rentals receivables under these cancelable operating leases are presented as follows:

		2010
Within one year	P	**8,188,030**
After one year but not more than five years		**19,188,870**
More than five years		**3,256,198**
	P	**30,633,098**

27.5 Others

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 June 30, 2011, 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.

Item II - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Comparable discussion on Material Changes in Results of Operations for the six Months' Period Ended June 30, 2011 vs. June 30, 2010.

Revenues

The Group generated total revenues of ₱ 13.979 billion in 2011 which is 122% higher than its 2010 level of ₱ 7.868 billion, primarily due to the 87% increase in sales volume of refined petroleum products plus higher revenues from fuels service and storage. In 2010, the Group recorded ₱ 42.5 million revenue on sale of real estate under Bacnotan Industrial Park Corporation which yielded ₱11 million in realized gross profits.

Sales revenues from trading and distribution of petroleum products increased by 129% from ₱6.058 billion in 2010 to ₱13.874 billion in 2011 resulting principally from a wider distribution network and expanded institutional customer base and also as a result of improved price competitiveness. Weighted average selling price for the current year is also higher by 23% at ₱38.04per liter compared to ₱30.94 per liter during the same period in 2010 as a factor of higher average crude prices and product sales mix. The Parent Company had one hundred ninety (190) operational Phoenix Fuels Life retail service stations as of June 30, 2011 compared to one hundred thirty one (131) retail stations as of the same period last year. The Parent Company has a number of retail stations undergoing construction and projected to be opened within the year.

The Group generated ₱ 104 million from its fuels service, storage, port and other income in 2011 versus ₱ 83.9 million in 2010, a 25% increase compared to the same period last year.

Cost and expenses

The Group recorded cost of sales and services of ₱ 12.999 billion, an increase of 124% from its 2010 level of P 5.642 billion primary due to the 130% increase in the sales volume of petroleum products. Average unit costs this year were also higher compared to the same period last year as a result of higher crude prices.

Selling and administrative expenses increased as a result of the increasing 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 additions in manpower, and logistics costs including depreciation of facilities.

Net Income

The Group's net income for the first semester of 2011 is ₱ 305.5 million versus 2010 first semester net income of ₱ 135.4 million. In spite to the decline in gross profit rate due to the sales mix, the increase in volume fuelled the increase in net income amount. The second quarter gross margin was low as result of sudden drop in crude prices in the international market.

The Parent Company is registered with the Board of Investments on November 16, 2005 as a new industry participant with new investments in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Regulation Act) and, as such, continues to enjoy an income tax holiday for five (5) years from November 16, 2005.

The Parent Company obtain additional registration approval from the Board of Investments (BOI) under R.A. 8479 or Oil Industry Deregulation Law for its Calaca, Batangas Terminal.. This entitles the Parent Company to an Income Tax Holiday (ITH) on the revenue activities from this additional storage capacity for five (5) years starting February 2010. Another BOI registration was granted for the Davao Terminal Expansion facility effective February 2010 thus entitling the Parent Company another set of incentives including the five (5) year ITH in its Davao Terminal Marketing and Storage activities. These additional ITH incentives will allow the Company to enjoy an effective income tax rate well below 30% as it continuously expands its storage and obtains further incentives from the BOI.

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

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

Financial Condition
(As of June 30, 2011 versus December 31, 2010)

Total resources of the Group as of June 30, 2011 stood at ₱ 8.961 billion, a growth of 17% over the ₱ 7.641 billion as of December 31, 2010.

Cash and cash equivalents decreased by 26% from ₱605 million to ₱449 million due cash utilization in operations and capital expenditures.

The Group's liquidity position continued to be strong with Current Assets amounting to ₱5.574 billion as of June 30, 2011, up from ₱4.871 billion as of December 31, 2010.

Trade and other receivables decreased by 19%, from ₱ 2.593 billion as of December 31, 2010 to ₱ 2.099 billion as of June 30, 2011, which were mainly driven by further improvement in trade receivables collection and increasing cash sales. The Group continue to enhance its credit policies to minimize overdue customer past due accounts.

Inventories increased by 112%, from ₱ 1.052 billion as of December 31, 2010 to ₱ 2.238 billion as of June 30, 2011 as the Group's inventory strategy of maintaining inventory level at more or less equivalent to one month's sales plus a safety buffer. The average monthly costs of sales this second quarter is close ₱ 2.5 billion.

Due from related parties and Due to parent company in June 30, 2011 and December 31, 2010 is almost at the same level of ₱ 14.8 million. .

Other current assets are at ₱89.8 million and ₱ 53.4 million level for June 30, 2011 and December 31, 2010 respectively. The bulk of the increase represents the prepaid taxes on importation, prepaid rentals on leased retail service stations properties and depot sites, prepaid insurance and other current assets.

As of June 30, 2011, the Group's property and equipment, net of accumulated depreciation, increased to ₱ 2.831 billion compared to ₱2.358 billion as of December 31, 2010 due to investments in additional depot capacity in existing areas and new additional sites. During the year the Parent Company is nearing completion on the construction of its new Depot facility in Misamis Oriental, additional storage tanks in Calaca, Batangas. New retail stations in Luzon, Mindanao and Visayas are continuously being constructed.

Loans and Borrowings increased by 55% from ₱ 3.427 billion as of December 31, 2010 to ₱ 5.311 billion as of June 30, 2011. This was driven by the increase in inventory and decrease of accounts payable trade alongside the rise in cost of sales which resulted to the increased utilization of trade facilities such as import letters of credit and trust receipts.

Trade and other payables decreased by 53%, from ₱ 1.637 billion as of December 31, 2010 to ₱ 771.3 million as of June 30, 2011. As the Parent Company switching most of its purchases to importation, trade payables from foreign suppliers were covered by letters of credit and or then booked to trust receipts while products are still in inventory or accounts receivable.

Total Stockholders' Equity increased to ₱ 2.700 billion as of June 30, 2011 from ₱2.461 billion as of December 31, 2010 due the income for the quarter less the cash dividend of ₱37.7 million declared during the quarter.

The Group's top five (5) performance indicators and how they are computed are provided below:

Selected Financial Ratios	**Two (2) Quarter ended, June 31, 2011**	**Twelve months ended, December 31, 2010**
Current Ratio[1]	1.04 : 1	1.11 : 1
Debt to Equity[2]	2.32 : 1	2.10 : 1
Return on Equity[3]	11.84%	21.41%

Return on Assets[4]	3.68%	6.76%
Earnings Per Share[6]	0.67	1.43
Net Book Value Per Share-Common[5]	5.51	6.53

Notes:

1 - Total current assets divided by current liabilities

2 - Total liabilities divided by tangible net worth

3 – Period or Year Net income divided by average total stockholders' equity

4 – Period or Year Net income divided by average total assets

5 –Total stockholder's equity (net of Preferred) divided by the total number of shares issued and outstanding

6 – Period or Year Net income after tax divided by weighted average number of outstanding common shares

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

Material Changes to the Group's Balance Sheet as of June 30, 2011 compared to December 31, 2010 (Increase/decrease of 5% or more)

25.88% decrease in Cash and Cash equivalent
Cash resources utilized in operation and in capital expenditures.

19% decrease in Trade and other receivables
Primarily due to further improvement in collection and increasing ratio of cash sales.

112% increase in Inventories
Due to greater importation in bulk and the need to maintain higher stock levels due to the increase in monthly volume sales and price factor.

24% increase on restricted deposits
Due to increase in requirements as credit line increases.

411% increase in input taxes
Due to increase purchase which resulted to a higher inventory level plus the continuous huge capital expenditures.

20% increase in Property, Plant and Equipment
Construction and/or completion of additional depot sites, retail service stations and other logistics assets.

68% increase in other current assets
Accounted most by the prepaid taxes relating to product importation plus other prepayments.

272% increase in other non-current assets
Investment by the Parent Company to a shipping company joint venture to support the Parent Company shipping requirements.

These subsidiary companies and its nature of business are:

a.) Petroterminal Philippines Corp. to operate the Depot facility in Calaca, Batangas.

b.) Petrologistix Services Corp. to provide ground logistics services and transport petroleum products of the Parent Company.

(On December 2, 2010, the Securities and Exchange Commission (SEC) approved the merger of PPC and PSC with the Parent Company. Per application approved by SEC, the merger is effective on December 2, 2010. PPC and PSC were 100% subsidiary of the Parent Company prior to merger.)

c) P-F-L Petroleum Management, Inc. (PPMI) , engaged in the management of company owned retail service stations used as training sites and other stations which await the appointment of prospective dealers.

d.) Phoenix Global Mercantile Inc. to handle the Distribution Agreement of Lubricants under a foreign brand. This Company is however in on dormant stage for the last three years.

e.) P-H-O-E-N-I-X Philippines Foundation, Inc. (PPFI), the corporate social responsibility arm of the Group.

d.) Bacnotan Industrial Park Corporation, engaged in industrial real estate business and port facilities operations.

69.57% increase in Loans and Borrowings-current
Increase in utilization of trade lines (LC/TR) to finance inventory purchases.

52.89% decrease in Trade and other payables
Trade Payable to foreign suppliers financed by trade lines (LC/TR)

185% increase in other non-current liabilities
Increase in security deposits by customers to secure purchase

Material changes to the Group's Income Statement as of June 30, 2011 compared to June 30, 2010 (Increase/decrease of 5% or more)

129% increase in Sale of petroleum products
Principally due to higher sales volume and higher selling prices compared to the same period of 2010.

130% increase in cost of sales
Primarily due to increase sales in petroleum product plus the effect of higher average costs compared to last year.

73% increase in selling and administrative expenses
The increase arose from the ongoing network and storage expansion activities, increase in trade area coverage, and higher sales volume of activity. Volume increased by 110% for this quarter period compared to the same period of last year due to wider market coverage and additional institutional accounts.

94% increase in Finance Costs (net)
Due to interest on the instalment payable, bank term loan and TRs availed for the increasing purchases.

271% decrease in other income/Costs
Due to recognition of losses on inventory

There are no other material changes in the Group's financial position (5% or more) and condition that will warrant a more detailed discussion. Furthermore, there are no material events and uncertainties known to management that would impact or change the reported financial information and condition of the Group.

PART II – OTHER INFORMATION

1. The Parent Company held its annual stockholders' meeting last March 11, 2011 at the Marco Polo Hotel, Davao City, Philippines.

2. The Board of Directors declared Cash Dividend for Common Shareholders with details as follows:

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

3. For the year, the Board of Directors declared and distributed total of Php 28,750,000.00 dividends for Preferred Stockholders.

4. The 30% Stock Dividend declared by the Board of Directors was approved by the Stockholders during the March 11, 2011 Annual Stockholders' meeting. This entitles all stockholders of record as of April 8, 2011 and shall be distributable on May 6, 2011. Total distributed for this dividend is 113,047,475 shares.

5. As of June 30, 2011, there are no known trends or demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result, in increasing or decreasing the Group's liquidity in any material way. The Group does not anticipate having any cash flow or liquidity issues. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

6. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Parent Company with unconsolidated entities or other persons created during the reporting period.

7. There are no material commitments for capital expenditures, events or uncertainties that have had or that are reasonably expected to have a material impact on the continuing operations of the Parent Company.

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

SIGNATURES

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

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

By:

DENNIS A. UY
President and Chief Executive Officer

JOSEPH JOHN L. ONG
Chief Finance Officer