



08 August 2012

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

Dear *Ms. Encarnacion*:

We are herewith submitting the Company's second quarter report for period ended 30 June 2012 (SEC 17-Q) in compliance with the Securities Regulation Code and Revised Disclosure Rules.

Thank you and warm regards.

Very truly yours,



**Atty. Socorro Ermac Cabreros**  
Corporate Secretary

# COVER SHEET

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S.E.C. Registration Number

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

**P-H-O-E-N-I-X Petroleum Philippines, Inc.**  
(Company's Full Name)

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

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

<b>Dennis A. Uy</b>
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Contact Person

<b>(082) 233-0168</b>
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Company Telephone Number

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Fiscal Year Ending			Annual Meeting							

last Friday

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Secondary License Type, if applicable

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Dept. Requiring this Doc

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings									

Domestic

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Foreign

To be accomplished by SEC Personnel Concerned

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File Number

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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, 2012
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	734,808,617
PREFERRED	5,000,000

Amount of Debt Outstanding as of June 30, 2012: Php 7,896,328,380.00

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

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

Philippine Stock Exchange

12. Check whether the issuer has:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports):

Yes [] No []

(b) has been subject to such filing requirements for the past ninety (90) days:

Yes [] No []

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**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2012 AND DECEMBER 31, 2011**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>June 30, 2012</u> (Unaudited)	<u>December 31, 2011</u> (Audited)
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	P 795,962,013	P 886,342,207
Trade and other receivables - net	7	2,453,447,063	2,787,942,121
Inventories	8	2,279,899,837	2,132,622,404
Land held for sale and land development costs	9	451,587,118	451,587,118
Due from related parties	23	9,866,135	9,480,803
Restricted deposits	10	80,797,400	69,036,837
Input value-added tax - net		362,935,652	226,507,521
Other current assets	11	<u>226,575,993</u>	<u>167,647,224</u>
Total Current Assets		<u>6,661,071,211</u>	<u>6,731,166,235</u>
<b>NON-CURRENT ASSETS</b>			
Installment contract receivable		-	9,002,788
Land held for future development	13	278,283,558	271,981,834
Advances for future investment	23.9	150,000,000	150,000,000
Property and equipment - net	12	3,658,496,374	3,288,614,119
Deferred tax assets	22	14,835,166	14,989,234
Other non-current assets	14	<u>125,005,000</u>	<u>85,156,823</u>
Total Non-current Assets		<u>4,226,620,098</u>	<u>3,819,744,798</u>
<b>TOTAL ASSETS</b>		<b><u>P 10,887,691,309</u></b>	<b><u>P 10,550,911,033</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	15	P 5,576,760,871	P 3,772,195,945
Trade and other payables	16	<u>946,186,522</u>	<u>2,404,549,895</u>
Total Current Liabilities		<u>6,522,947,393</u>	<u>6,176,745,840</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	15	1,116,095,886	1,300,986,896
Other non-current liabilities	17	<u>257,285,101</u>	<u>209,819,730</u>
Total Non-current Liabilities		<u>1,373,380,987</u>	<u>1,510,806,626</u>
Total Liabilities		<u>7,896,328,380</u>	<u>7,687,552,466</u>
<b>EQUITY</b>			
Common stock*	24	734,808,617	489,872,215
Preferred stock	24	5,000,000	5,000,000
Additional paid-in capital	24	802,774,593	802,774,593
Retained earnings	25	<u>1,448,779,718</u>	<u>1,565,711,759</u>
Total Equity		<u>2,991,362,928</u>	<u>2,863,358,567</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 10,887,691,309</u></b>	<b><u>P 10,550,911,033</u></b>

\* Subscribed Capital Stock-Common is 932,808,617 shares, Paid-up is 734,808,617 shares.

*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, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	Notes	For six Months January to June 30		For three Months April to June 30	
		2012	2011	2012	2011
		Unaudited	Unaudited	Unaudited	Unaudited
<b>REVENUES</b>					
Sale of goods - net		P 16,774,255,448	P 13,874,144,448	P 8,570,344,902	P 7,807,158,131
Fuel service, storage income and other revenue		121,976,130	104,595,091	55,100,595	60,545,798
		<u>16,896,231,578</u>	<u>13,978,739,538</u>	<u>8,625,445,497</u>	<u>7,867,703,929</u>
<b>COST AND EXPENSES</b>					
Cost of sales and services	17, 18	15,842,498,512	12,998,688,179	8,165,227,106	7,398,867,177
Selling and administrative expenses	18	<u>636,675,119</u>	<u>495,640,220</u>	<u>337,197,776</u>	<u>265,014,888</u>
	18	<u>16,479,173,630</u>	<u>13,494,328,399</u>	<u>8,502,424,882</u>	<u>7,663,882,065</u>
<b>OTHER INCOME (CHARGES)</b>					
Finance costs-Net		(198,582,476)	(169,216,660)	(91,928,600)	(77,286,294)
Others		<u>(7,512,409)</u>	<u>(5,025,963)</u>	<u>(15,334,987)</u>	<u>(4,786,551)</u>
		<u>(206,094,885)</u>	<u>(174,242,622)</u>	<u>(107,263,586)</u>	<u>(82,072,845)</u>
<b>INCOME BEFORE TAX</b>		<u>210,963,063</u>	<u>310,168,517</u>	<u>15,757,029</u>	<u>121,749,019</u>
<b>PROVISION FOR INCOME TAX</b>	22	<u>(5,221,661)</u>	<u>(4,675,685)</u>	<u>(655,133)</u>	<u>(1,396,128)</u>
<b>NET PROFIT</b>		<u>P 205,741,403</u>	<u>P 305,492,832</u>	<u>P 15,101,896</u>	<u>P 120,352,891</u>
<b>Earnings per share</b>	25	<u>P 0.31</u>	<u>P 0.67</u>		

*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, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	Note	<u>June 30, 2012</u> (Unaudited)	<u>June 30, 2011</u> (Unaudited)
<b>COMMON STOCK</b>			
	24		
Balance at beginning of year		P 489,872,215	P 376,824,940
Stock dividends		244,936,202	113,047,475
Additional/Adjustment during the period		<u>200</u>	<u>-</u>
Balance at end of year*		<u>734,808,617</u>	<u>489,872,415</u>
<b>PREFERRED STOCK</b>			
	24		
Balance at beginning of year		<u>5,000,000</u>	P 5,000,000
Balance at end of period		P <u>5,000,000</u>	<u>5,000,000</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>			
	24		
Balance at beginning of year		802,774,593	802,778,234
Additions		<u>-</u>	<u>-</u>
Balance at end of period		<u>802,774,593</u>	<u>802,778,234</u>
<b>DEPOSITS ON FUTURE STOCK SUBSCRIPTIONS</b>			
	24	<u>-</u>	<u>-</u>
<b>TREASURY SHARES - At Cost</b>			
	24		
Balance at beginning of period		-	-
Additional purchases during the period		<u>-</u>	<u>-</u>
Less: Sales during the period		<u>-</u>	<u>-</u>
Balance at end of period		<u>-</u>	<u>-</u>
<b>RETAINED EARNINGS</b>			
Balance at beginning of year		1,565,711,759	1,276,604,552
Net profit		205,741,403	305,492,832
Stock dividends	24	(244,936,202)	(113,047,475)
Cash dividends	24	<u>(77,737,242)</u>	<u>(66,432,494)</u>
Balance at end of period		<u>1,448,779,718</u>	<u>1,402,617,415</u>
<b>TOTAL EQUITY</b>		<u><b>P 2,991,362,928</b></u>	<u><b>P 2,700,268,064</b></u>

\* Subscribed Capital Stock-Common is 932,808,617 shares, Paid-up is 734,808,617 shares.

*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 CASH FLOWS**  
**FOR THE PERIOD ENDED JUNE 30, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>June 30, 2012</u> <u>(Unaudited)</u>	<u>June 30, 2011</u> <u>(Unaudited)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		210,963,063	310,168,517
Adjustments for:			
Interest expense		200,163,351	172,436,644
Depreciation and amortization	12	128,939,239	81,253,577
Interest income		(3,419,926)	(3,219,984)
Impairment losses			
Operating income before working capital changes		536,645,727	560,638,754
Increase in trade and other receivables		334,495,058	494,258,587
Decrease (increase) in inventories		(147,277,433)	(1,186,748,128)
Decrease (increase) in restricted deposits		(11,760,563)	(17,565,615)
Increase in input value-added tax		(136,428,131)	(113,280,423)
Increase in other current assets		(58,928,769)	(36,340,691)
Decrease (increase) in Installment Receivable		9,002,788	18,005,640
Increase (Decrease) in trade and other payables		<u>(1,458,363,373)</u>	<u>(866,028,376)</u>
Cash generated from (used in) operations		(932,614,696)	(1,147,060,253)
Provision for Taxes		<u>(5,221,661)</u>	<u>(4,675,685)</u>
Net Cash From (Used in) Operating Activities		<u>(937,836,356)</u>	<u>(1,151,735,938)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net acquisitions of property and equipment	12	(498,821,494)	(554,187,181)
Increase in land held for future development		(6,301,724)	0
Net increase in other non-current assets		(39,694,109)	(162,011,435)
Interest received		<u>3,419,926</u>	<u>3,219,984</u>
(Payment) Collections from related parties		<u>-</u>	<u>-</u>
Payment of Dividends		<u>-</u>	<u>-</u>
Net Cash From (Used) in Investing Activities		<u>( 541,397,401 )</u>	<u>( 712,978,632 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net (Decrease) increase in loans and borrowings		1,619,673,916	1,884,006,646
Interest paid		(200,163,351)	(172,436,644)
Borrowings from related parties	24	(385,332)	(53,106,188)
Increase (Decrease) in non-current liabilities		47,465,371	115,999,657
Additional/Adjustment during the year	25	200	
Payments of cash dividends	25	<u>(77,737,242)</u>	<u>(66,432,494)</u>
Net Cash From (Used) Financing Activities		<u>1,388,853,563</u>	<u>1,708,030,977</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(90,380,194)</b>	<b>(156,683,593)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	6	<u>886,342,207</u>	<u>605,444,745</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	6	<u>795,962,013</u>	<u>448,761,152</u>

*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, 2012 AND DECEMBER 31, 2011**  
*(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%<sup>1</sup> owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines.

The Parent Company's shares of stocks are listed with the Philippine Stock Exchange (PSE). The Parent Company 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. 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 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 255 service stations, including 71 service stations in Luzon, 15 in the Visayas and 169 in Mindanao operating as of June 30, 2012 and there are a total of 61 service stations under construction as of June 30, 2012.

The Company holds 100% interests in the following subsidiaries as of June 30, 2012 and December 31, 2011:

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

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.

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<sup>1</sup> based on the paid up capital of 734,808,617 common shares

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

SPTT was registered with the SEC on February 20, 2007 and is engaged in buying and selling, supply and distribution, importation and exportation, storage and delivery of all types of petroleum for industrial, marine, aviation and automotive use. It does not carry any inventory at any given time.

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

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

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

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

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

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

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

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

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

#### ***(b) Presentation of Financial Statements***

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

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

(c) *Functional and Presentation Currency*

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

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

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

(a) *Effective in 2011 that are Relevant to the Group*

In 2011, the Group adopted the following amendments, interpretations and annual improvements to PFRS that are relevant to the Group and effective for the consolidated financial statements for the annual period beginning on or after July 1, 2010:

PAS 24 (Amendment)	:	Related Party Disclosures
PAS 34 (Amendment)	:	Interim Financial Reporting
Philippine Interpretations		
International Financial Reporting Interpretation Committee (IFRIC) 14 (Amendment)	:	Prepayment of a Minimum Funding Requirement
IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments
PFRS 3 (Amendment)	:	Business Combination
Various Standards	:	2010 Annual Improvements to PFRS

Discussed below and in the next pages are the effects on the consolidated financial statements of the new and amended standards.

- (i) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any significant changes on the Group's disclosures of related parties in its consolidated financial statements.

- (ii) PAS 34 (Amendment), *Interim Financial Reporting – Significant Event and Transactions* (effective from January 1, 2011). The amendment provides further guidance to illustrate how to apply disclosure principles under PAS 34 for significant events and transactions to improve interim financial reporting. It requires additional disclosures covering significant changes to fair value measurement and classification of financial instruments, and to update relevant information from the most recent annual report. The adoption of the amendment did not have material effect on the Group’s consolidated financial statements.
- (iii) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective from 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 surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements and it does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its consolidated financial statements.
- (iv) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as “debt for equity” exchanges or swaps. 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, *Financial Instruments: Recognition and Measurement*,
  - 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.

The adoption of the interpretation did not have a material effect on the Group’s consolidated financial statements as it did not extinguish financial liabilities through equity swap during the year.

- (v) PFRS 3 (Amendment), *Business Combinations* (effective from July 1, 2010). 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 had business acquisition during the year and duly complied with the provision of the amended standard.

(vi) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to PFRS*. Most of these amendments became effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. Among those improvements, only the following amendments that are effective July 1, 2010 were identified to be relevant to the Group's consolidated financial statements but which did not have any material impact on its consolidated financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. As the Group currently has no other comprehensive income, the Group, however, has elected to continue presenting each item of other comprehensive income, if any, in the consolidated statement of changes in equity.
- PAS 27 (Amendment), *Consolidated and Separate Financial Statements* (effective from July 1, 2010). This amendment clarifies that the consequential amendments made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investment in Associate*, and, PAS 31, *Investment in Joint Ventures*, arising from the PAS 27 (2008) amendments apply prospectively, to be consistent with the related PAS 27 transition requirements.
- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security.

(b) *Effective in 2011 that are not Relevant to the Group*

The following amendments to published standards are mandatory for accounting periods beginning on or after July 1, 2010 or January 1, 2011 but are not relevant to the Group's consolidated financial statements:

PAS 32 (Amendment)	:	Financial Instruments: Presentation - Classification of Rights Issues
PFRS 1 (Amendments)	:	First-Time Adoption of PFRS
IFRIC 13 (Amendment)	:	Customer Loyalty Programmes – Fair Value Awards Credits

(c) *Effective Subsequent to 2011 but not Adopted Early*

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2011. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

- i. PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its consolidated financial statements.
- ii. PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39 in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

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

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

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the consolidated financial statements of the Group and is committed to conduct a comprehensive study of the potential impact of this standard early in 2012 to assess the impact of all changes.

- iii. PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.
- iv. PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects that this will not affect the presentation of items in other comprehensive income, since currently the Group has not recognized any other comprehensive income.
- v. PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset on an investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) measured at fair value that is held with an objective to consume substantially the economic benefits embodied in the asset over time, rather than through sale. As a result of the amendment, Standard Interpretation Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn. This amendment is not expected to have an effect on the Group's consolidated financial statements as the Group has no investment property.
- vi. PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:
- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;
  - streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
  - enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.



Currently, the Group is using the corridor approach and its unrecognized actuarial losses as of December 31, 2011 amounted to P0.3 million which will be retrospectively recognized as losses in other comprehensive income in 2013.

*vii.* Consolidation Standards

- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.
- PFRS 12, *Disclosure of Interest in Other Entities* (effective from January 1, 2013). This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.
- PAS 27 (Revised), *Separate Financial Statements* (effective from January 1, 2013). This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements standard have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.
- PAS 28 (Revised), *Investments in Associate and Joint Venture* (effective from January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement*.

The Group is currently reviewing the impact of the above consolidation standards on its consolidated financial statements in time for its adoption in 2013.

### **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 Group has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date the Group obtains control until such time that such control ceases.

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

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

The excess of the consideration transferred, which is the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill (see Note 14). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain or loss in the profit or loss (see Note 29).

#### ***2.4 Financial Assets***

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

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

A more detailed description of the loans and receivable category of financial assets relevant to the Group is as follows:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

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

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

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

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

## ***2.5 Inventories***

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

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

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

Land held for sale and land development costs are valued at the lower of cost and net realizable value. Land held for sale and land development costs includes the cost of land and actual development costs incurred up to the end of reporting period. Interest incurred during the development of the project is capitalized (see Note 2.17).

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 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.

## ***2.8 Property and Equipment***

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

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 costs (see Note 2.17) and other direct costs. 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.

## ***2.9 Financial Liabilities***

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

Interest-bearing loans and borrowings are raised for long-term funding of operations. Finance charges, which includes premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and added to the carrying amount of the instrument while it is outstanding computed from date of inception to date of settlement.

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

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

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

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

## **2.10 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 consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

## **2.11 Business Combinations**

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.15).

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

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

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

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize

the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

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

### ***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, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, i.e. when the customer has acknowledged delivery of goods.
- (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 on a straight-line basis over the lease term.

Cost and expenses are recognized in the profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.17).

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

### **2.13 Leases**

The Group accounts for its leases as follows:

(a) *Group as Lessee*

Leases, which transfer substantially all risks and benefits incidental to the ownership of the leased items to the Group, are classified as finance lease, and recognized as assets and liabilities in the consolidated statement of financial position at amounts either equal to the fair value of the leased property at the inception of the lease or, if lower, to 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 either over the estimated useful life of the asset or the lease term, whichever is shorter

Leases, which do not transfer substantially all the risks and benefits of ownership to the Group, are classified as operating lease. 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 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 with respect to the finance lease.

Leases, which do not transfer substantially all the risks and benefits of ownership of the asset to the lessee, 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 whether the fulfilment of the arrangement depends on the use of a specific asset(s) or it 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 consolidated 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 (presented as part of Other Non-Current Assets) and advances for future investment 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 where there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

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

All assets are subsequently reassessed for indications that an impairment loss, which was previously recognized, no longer exists. 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. It usually depends on one or more factors such as age, years of service and salary. The legal obligation for any benefit from this kind of post-employment plan remains with the Group, even if plan assets, if any, have been acquired to fund the defined benefit plan. Plan assets, if any, may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's post-employment benefit pension plan covers all regular full-time employees.

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

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

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of 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 Segment Reporting***

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

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 27 which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches.

All inter-segment transfers are carried out at arm's length prices.

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

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

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

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

### ***2.21 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 profit or loss section of the consolidated statement of comprehensive income.

## ***2.22 Basic Earnings per Share***

Basic earnings per share is computed by dividing net income attributable to common shareholders 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 28.

*(c) Qualifying Assets on Borrowing Costs*

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

### ***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*

Adequate amount of 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 and the analysis of allowance for impairment on such financial assets are shown in Note 7.

*(b) Determining Net Realizable Value of Inventories*

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

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

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

*(d) Useful Lives of Property and Equipment*

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 June 30, 2012 and December 31, 2011, there is no change in the estimated useful lives of the property and equipment during those years. 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 consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

The management has assessed that there are no impairment losses to be provided on property and equipment and goodwill in 2011, 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, 2011 and 2010 is disclosed in Note 23.

(g) *Liability for Land Development*

Obligations to complete development of real estate are based on actual costs and project estimates of contractors and Group's technical staff. These costs are reviewed at least annually and are updated if expectations differ from previous estimates. Liability to complete the project for sold units included in the determination of cost of sales are presented as part of accrued expenses under Trade and Other Payables account in the consolidated statements of financial position amounted to P59.9 million and P1.1 million as of December 31, 2011 and 2010, respectively (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 amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 21.2.

(i) *Estimating Development Costs*

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.

#### **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 sales to a certain customer and fuel importation, which are primarily denominated in U.S. dollars. The liability covering the importation is covered by letter of credits which is subsequently closed to Philippine peso trusts receipts (TRs). As of December 31, 2011 and 2010, the Group has no U.S. dollar denominated liabilities. The Group also holds U.S. dollar-denominated cash and cash equivalents.

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

Foreign currency-denominated financial assets, translated into Philippine pesos at the closing rate amounted to P589.8 million and P4.9 million as of December 31, 2011 and 2010, respectively.

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



	<u>Reasonably possible change in rate</u>	<u>Profit before tax</u>	<u>Effect in equity before tax</u>
<b>2011</b>	<b>16%</b>	<b>P 94,371,883</b>	<b>P 66,060,318</b>
2010	18%	879,227	615,460

*(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 6.4% to 10.25% per annum. At June 30, 2012 and December 31, 2011, 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 table below illustrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates of +/- 1.82% in 2011 and 1.90% in 2010 and 2009 for Philippine peso and +/- 0.88% in 2011 and 0.90% in 2010 and 2009 for U.S. dollar. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

<u>2011</u>		<u>2010</u>		<u>2009</u>	
<u>+ 182/80</u>	<u>- 182/80</u>	<u>+190/ 90</u>	<u>-190/ 90</u>	<u>+190/ 90</u>	<u>-190/ 90</u>

**Profit before**

**tax (P57,476,490) P57,476,490 (P 55,383,622) P55,383,622 (P34,489,575) P 34,489,575**

*(c) Market Price Risk*

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

**4.2 Credit Risk**

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

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

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

	<u>Notes</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Cash and cash equivalents (excluding cash on hand)	6	<b>P 795,962,013</b>	P 880,334,942
Trade and other receivables - net	7	<b>2,453,447,063</b>	2,787,942,121
Due from related parties	24.4	<b>9,866,135</b>	9,480,803
Restricted deposits	10, 14	<b>80,797,400</b>	70,322,343
Refundable rent deposits	14	<b>89,792,922</b>	71,878,456
Installment contract receivable		<b><u>47,532,709</u></b>	<u>9,002,788</u>
		<b><u>P 3,477,398,242</u></b>	<b><u>P 3,828,971,453</u></b>

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 P3.3 million as of June 30, 2012 and P6.0 million as of December 31, 2011 (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 considers the credit quality of trade receivables that are not past due or impaired to be good.

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

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

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Not more than one month	<b>P 126,543,208</b>	P 202,814,458
More than one month but not more than two months	<b>60,061,786</b>	2,732,378
More than two months but not more than six months	<b>25,803,463</b>	17,211
More than six months but not more than one year	<b>11,477,208</b>	66,612,974
More than one year	<u><b>54,331,916</b></u>	<u>106,972,582</u>
	<u><b>P 278,317,581</b></u>	<u>P 379,149,603</u>

### **4.3 Liquidity Risk Analysis**

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

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

As of December 31, 2011, the Group's liabilities have contractual maturities which are summarized as follows:

	<u>Current</u>		<u>Non-current</u>
	<u>Within 6 months</u>	<u>6 to 12 months</u>	<u>1 to 3 years</u>
Interest-bearing loans and borrowings	P 259,462,264	P3,577,746,649	P1,348,791,638
Trade and other payables	2,342,606,364	76,704,531	-
Security deposits	-	-	<u>148,286,837</u>
	<u><b>P2,602,068,628</b></u>	<u><b>P3,654,451,180</b></u>	<u><b>P1,497,078,475</b></u>

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 3 years
Interest-bearing loans and borrowings	P 2,744,304,260	P 27,864,010	P 851,922,810
Trade and other payables	1,572,286,972	65,006,389	-
Due to parent company	53,106,188	-	-
Security deposits	-	-	53,072,027
	<u>P4,369,697,420</u>	<u>P 92,870,399</u>	<u>P 904,994,837</u>

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

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

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

	Notes	June 30, 2012		December 31, 2011	
		Carrying Values	Fair Values	Carrying Values	Fair Values
<b><i>Financial Assets</i></b>					
Loans and receivables:					
Cash and cash equivalents	6	P 795,962,013	P 795,962,013	P 886,342,207	P 886,342,207
Trade and other receivables - net	7	2,453,447,063	2,453,447,063	2,787,942,121	2,787,942,121
Due from related parties	24.4	9,866,135	9,866,135	9,480,803	9,480,803
Restricted deposits	10, 14	89,792,922	89,792,922	70,322,343	70,322,343
Refundable rent deposits	14	89,792,922	89,792,922	71,878,456	71,878,456
Installment contract receivable		<u>47,532,709</u>	<u>47,532,709</u>	<u>9,002,788</u>	<u>9,002,788</u>
		<u>P3,477,398,242</u>	<u>P3,477,398,242</u>	<u>P3,834,968,718</u>	<u>P3,834,968,718</u>
<b><i>Financial Liabilities</i></b>					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	15	P 6,692,856,757	P 6,692,856,757	P 5,073,182,841	P 5,073,182,841
Trade and other payables	16	946,498,670	946,498,670	2,404,549,895	2,404,549,895
Security deposits	17	<u>191,108,613</u>	<u>191,108,613</u>	<u>147,463,104</u>	<u>147,463,104</u>
		<u>P7,830,464,040</u>	<u>P7,830,464,040</u>	<u>P7,625,195,840</u>	<u>P7,625,195,840</u>

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of June 30, 2012 and December 31, 2011:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Cash on hand	<b>P 3,282,504</b>	P 5,997,265
Cash in banks	<b>700,471,202</b>	497,868,964
Short-term placements	<u><b>92,208,307</b></u>	<u>382,475,978</u>
	<u><b>P 795,962,013</b></u>	<u>P 886,342,207</u>

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 2.1% to 4.8% per annum in 2012 and 2011.

The balances of the cash on hand and in banks as of June 30, 2012 and December 31, 2011 did not include an amount of P80.8 million and P70.2 million, respectively, which are shown as Restricted Deposits account in the consolidated 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:

	<u>Note</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Trade receivables	24.1	<b>P 2,003,715,726</b>	P 2,370,976,256
Advances to suppliers	24.2	<b>382,419,325</b>	358,776,492
Non-trade receivables	24.5	<b>116,596,612</b>	134,124,602
Other receivables		<u><b>39,367,421</b></u>	<u>10,941,790</u>
		<b>2,542,099,084</b>	2,874,819,140
Allowance for impairment		<u><b>( 88,652,021)</b></u>	<u>( 86,877,019)</u>
		<u><b>P 2,453,447,063</b></u>	<u>P 2,787,942,121</u>

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

A reconciliation of the allowance for impairment at the beginning and end of June 30, 2012 and December 31, 2011 is shown below:

	<u>Note</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Balance at beginning of year		<b>P 86,877,019</b>	P 56,530,443
Impairment loss			
during the year	20.1	<b>1,775,002</b>	23,668,913
Reclassification			7,474,056
Write-off of receivables		_____	<u>(796,393)</u>
Balance at end of year		<b><u>P 88,652,021</u></b>	<b><u>P 86,877,019</u></b>

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

## 8. INVENTORIES

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

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Fuel	<b>P 2,116,043,137</b>	P 1,924,942,071
Lubricants	<b>163,843,942</b>	207,656,621
Others	<u>12,758</u>	<u>23,712</u>
	<b><u>P2,279,899,837</u></b>	<b><u>P 2,132,622,404</u></b>

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying value of P2,116 million and P2,117 million as of June 30, 2012 and December 31, 2011, respectively, have been released to the Group in trust for the bank. The Group is accountable to the bank for the trustee inventories or their sales proceeds (see Note 15.1).

There were no inventory write-down both in 2012 and 2011.

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 stated at cost relate to the following as of June 30, 2012 and December 31, 2011:

Land held for sale	<b>P 433,484,266</b>
Land development costs	<u>18,102,852</u>
	<b><u>P 451,587,118</u></b>

The land held for sale are used as security of the Group's installment payable with Land Bank of the Philippines (LBP) (see Note 15.2).

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

#### 10. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various banking credit facilities covered by hold-out agreements (see Note 6 and 15.1) amounting to P80.8 million and P69 million as of June 30, 2012 and December 31, 2011. As such, these are restricted as to withdrawals. The proceeds from availment of the banking credit facilities by the Group are used for the purpose of purchasing fuel and lubricant supplies (see Note 15.1). Interest rates for this type of deposit range from 3.125% to 5.975% per annum both in 2012 and 2011.

#### 11. OTHER CURRENT ASSETS

The composition of this account as of June 30, 2012 and December 31, 2011 is shown below:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Prepayments	P 170,037,974	P 122,369,099
Creditable withholding tax	35,930,530	29,748,788
Supplies	13,049,764	7,220,852
Others	<u>7,557,725</u>	<u>8,308,485</u>
	<b><u>P 226,575,993</u></b>	<b><u>P 167,647,224</u></b>

#### 12. PROPERTY AND EQUIPMENT

<u>June 30, 2012</u>		
Land		P 212,024,522
Property, Plant and Equipments	4,167,981,148	
Less: Accumulated Depreciation	<u>(721,509,296)</u>	<u>3,446,471,852</u>
Net Book Value-June 30, 2012		<b><u>P 3,658,496,374</u></b>
<u>December 31, 2011</u>		
Land		P 164,684,194
Property, Plant and Equipments	3,703,596,974	
Less: Accumulated Depreciation	<u>(403,267,560)</u>	<u>2,193,358,966</u>
Net Book Value-December 31, 2010		<b><u>P 3,288,614,119</u></b>

Certain property and equipment with an aggregate carrying value of P28.2 million and P26 million as of June 30, 2012 and December 31, 2011 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.

The Group's land held for future development was used as collateral for the Group's installment payable with LBP (see Note 15.2).

### 14. OTHER NON-CURRENT ASSETS

The composition of this account as of June 30, 2012 and December 31, 2011 is shown below:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Refundable rent deposits	P 91,272,045	P 49,970,137
Deferred minimum lease payments	21,908,319	21,908,319
Goodwill	11,488,810	11,488,810
Restricted time deposits	-	1,285,506
Others	<u>335,826</u>	<u>504,051</u>
	<u><b>P 125,005,000</b></u>	<u><b>P 85,156,823</b></u>

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

Goodwill amounting to P11.5 million and P11.5 million as of June 30, 2012 and December 31, 2011, respectively, 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.

### 15. INTEREST-BEARING LOANS AND BORROWINGS

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

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Current:		
Liabilities under letters of credits and trust receipts	P 5,155,689,846	P 3,449,608,928
Installment and notes payable	408,091,333	306,994,915
Mortgage payable	<u>12,979,692</u>	<u>15,592,102</u>
	<u><b>P 5,576,760,871</b></u>	<u><b>P 3,772,195,945</b></u>



Non-current:		
Installment and notes payable	<b>P 1,103,233,267</b>	<b>P 1,287,469,333</b>
Mortgage payable	<u>12,862,619</u>	<u>13,517,563</u>
	<b><u>P 1,116,095,886</u></b>	<b><u>P 1,300,986,896</u></b>

***15.1 Liabilities Under Letters of Credits and Trust Receipts***

The Group avails of letter of credit (LC) and TR lines with local banks to finance its purchases of inventories (see Note 8). These short-term trust receipts bear interests based on prevailing market interest rates at an average of 6.7% and 8.25% per annum for 2012 and 2011 respectively.

The Group is required by the banks to maintain certain collaterals for the credit line facility provided to the Group for working capital requirements. The collaterals are in the form of compensating deposits and a surety of a stockholder (see Notes 10 and 24.7).

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

### ***15.2 Installment and Notes Payable***

On April 16, 2010, the Group availed the P580.0 million loan with LBP. The loan with LBP was used to refinance the installment payable with PHINMA Group via take-out of the outstanding installment payable to PHINMA Group. The refinanced installment payable is payable for seven years with one year grace period on principal and bears an interest rate based on the prevailing LBP rate at the time of availment subject to quarterly repricing with reference to a three month PDST-F rate plus minimum spread of 2.5%. The installment payable with LBP is secured by the Group's parcel of land with carrying value of P705.5 million and P749.3 million as of December 31, 2011 (see Notes 9 and 13), and port expansion facilities with carrying value of P231.7 million December 31, 2011 (see Note 12).

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 certain property and equipment is payable quarterly (see Note 12).

In 2011, the Group availed the P750.0 million clean loan under the notes facility agreement entered into with BDO Capital & Investment Corporation, Banco De Oro Unibank, Inc., Maybank Philippines, Inc., Robinsons Bank Corporation and Banco de Oro Unibank, Inc. – Trust and Investment Group. The long-term loan amounting to P700.0 million with interest rate of 7.35% annually is payable on August 24, 2016 and the remaining P50.0 million with interest rate of 7.66% is payable on August 23, 2018.

### ***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 P10.0 billion and P8.3 billion under LC and TR, respectively. These lines obtained from various banks are being utilized by the Parent Company for procurement of inventories both local and foreign. The credit line is secured by the following:

- (a) Assignment of future receivables;
- (b) Suretyship of the PPHI and pledge of its share in the Parent Company amounting to P46,958,000 (at P1 par value);
- (c) Joint several signature of certain stockholders; and,
- (d) Negative pledge over the remaining shares of PPHI in Parent Company in favor of the bank amounting to P1.08 billion.

## 16. TRADE AND OTHER PAYABLES

This account consists of:

	<u>Note</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Trade payables	24.2	<b>P 710,483,760</b>	P 2,040,634,593
Accrued expenses		<b>171,591,022</b>	166,794,707
Advances from customers and locators		<b>224,242</b>	153,090,113
Others		<b><u>63,887,498</u></b>	<u>44,030,492</u>
		<b><u>P 946,186,522</u></b>	<u>P 2,404,549,895</u>

The advances from customers and locators include option money from two different locators amounting to P0.1 million in December 31, 2011. The said locators have the right and option to purchase subject properties under the terms and condition agreed by the said locator and the Group. However, in the event that the said locator does not exercise its right to purchase the subject properties, the option money shall be refunded to the said locator plus interest at the rate equivalent to the prevailing treasury bill rate plus 2% per annum. In addition, the advances from customers pertain to the advance payment of the Parent Company's various customers for their fuel purchases.

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 their fair value (see Note 5).

## 17. OTHER NON-CURRENT LIABILITIES

This account consists of:

	<u>Note</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Security deposits		<b>P 191,108,614</b>	P 147,463,104
Unearned rent		<b>54,955,683</b>	51,131,981
Retirement benefit obligation	21.2	<b>10,397,071</b>	10,397,071
Others		<b><u>823,733</u></b>	<u>827,574</u>
		<b><u>P 257,285,101</u></b>	<u>P 209,819,730</u>

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

interest rates were determined by reference to market interest rate of comparable financial instrument.

## 18. COST OF SALES AND SERVICES

This account is composed of the following as of December 31:

### *18.1 Cost of Fuels and Lubricants Sold*

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

	Note	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Inventories at beginning of year	8	<b>P 2,132,622,404</b>	P 1,051,658,928
Net purchases during the period		<u>15,939,901,665</u>	<u>14,130,626,755</u>
Goods available for sale		<b>18,072,524,069</b>	15,182,285,683
Inventories at end of the period	8	<b>( 2,279,899,837)</b>	( 2,238,407,056)
		<u><b>P 15,792,624,232</b></u>	<u>P12,943,878,627</u>

## 19. OPERATING EXPENSE BY NATURE

The details of operating expenses by nature are shown below:

	Notes	June 30, 2012	June 30, 2011
Cost of Sales and Service			
Fuels	18.1	15,652,951,774	12,817,913,615
Lubricants	18.1	139,672,458	125,965,012
Real Estate			
Services		49,874,280	54,809,551
Salaries and employees' benefits	20	68,559,921	68,688,919
Depreciation and amortization	12	128,939,239	81,253,577
Trucking charges		55,354,138	32,219,240
Fuel, oil and lubricants		27,732,305	22,284,155
Advertisements and promotion		46,198,337	44,956,360
Rent		98,451,706	67,461,024
Office supplies		4,736,385	3,404,433
Repairs and maintenance		18,190,383	19,168,725
Travel and transportation		14,206,549	12,521,640
Professional fees		19,276,493	12,763,113
Taxes and licenses		27,758,446	12,101,965
Representation		9,183,181	10,327,067
Insurance		13,833,540	16,173,492
Documentary Stamps		44,068,137	29,125,233
Security fees		12,873,215	5,940,217
Dues and Subscription		3,304,638	2,348,431
Service Fee		12,148,248	15,302,283
Utilities		13,789,897	10,882,968
Bank Charges		1,839,051	7,375,955
Provisions for Bad Debts		1,775,003	1,800,000
Rebates		12,922,344	15,202,463
Miscellaneous		1,533,965	4,338,959
		<u>16,479,173,630</u>	<u>13,494,328,399</u>

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

	Note	June 30, 2012	June 30, 2011
Cost of sales			
and services	18	P 15,842,498,512	P 12,998,688,179
Operating expenses		<u>636,675,119</u>	<u>495,640,220</u>
		<u>P 14,479,173,630</u>	<u>P 13,494,328,399</u>

## 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:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Salaries and Wages	<b>P 52,516,906</b>	P 47,996,950
13th Month Pay	<b>4,471,721</b>	4,128,169
Other Benefit and Bonuses	<b>11,571,294</b>	16,563,800
	<b><u>P 68,559,921</u></b>	<b><u>P 68,688,919</u></b>

### *20.2 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:

	<u>2011</u>
Present value of obligation	<b>P 11,127,336</b>
Unrecognized actuarial losses	<b>(<u>730,265</u>)</b>
	<b><u>P 10,397,071</u></b>

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

	<u>2011</u>
Balance at beginning of year	<b>P 6,251,207</b>
Current service cost	<b>3,528,000</b>
Interest cost	<b>1,061,029</b>
Actuarial loss	<b><u>287,100</u></b>
Balance at end of year	<b><u>P 11,127,336</u></b>

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

	<u>Note</u>	<u>2011</u>
Current service cost	<b>P</b>	<b>3,528,000</b>
Interest cost		<b>1,061,029</b>
Actuarial loss (gain) recognized during the year		<u><b>287,100</b></u>
	21.1	<u><b>P 4,876,129</b></u>

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

	<u>2011</u>
Present value of the obligation	<b>P 11,397,071</b>
Experience adjustments arising on plan liabilities	-

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

	<u>2011</u>
Discount rate	<b>10.44%</b>
Expected rate of salary increase	<b>10.00%</b>

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

The Group will fund the retirement benefit obligation in 2012.

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

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

The Parent Company was registered with the Bureau of Investments (BOI) on November 16, 2005, as a new industry participant with new investment in storage, marketing and distribution of petroleum products under RA No. 8479 (Downstream Oil Industry Deregulation Act). Under its registration, the 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) The Parent Company may qualify to import capital requirement, spare parts and accessories at zero percent (0%) from the date of registration up to June 16, 2011 pursuant to the Executive Order No. 528 and its implementing rules and regulations.

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

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

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

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

The Parent 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 Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

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

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

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 Parent Company is required to observe certain general and specific terms and conditions stated in the



provisions of the Omnibus Investments Code of 1987.

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

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

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

## **22. TAXES**

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

	<u>2011</u>
Current tax expense:	
Regular corporate income tax (RCIT) at 30%	(P 33,228,157)
Final tax at 20%	( 1,343,955)
Minimum corporate income tax (MCIT) at 2%	( 154,000)
	<u>( 34,726,112)</u>
Deferred tax income:	
Relating to tax application of NOLCO	( 13,387,056)
MCIT	7,433,662
Provision of impairment loss	1,132,848
Deferred tax income relating to net operating loss carryover (NOLCO)	1,097,619
Reversal of NOLCO	( 551,441)
Deferred tax relating to reversal of temporary difference	-
	<u>( 4,274,368)</u>
	<u>(P 39,000,480)</u>

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

	<u>2011</u>
Tax on pretax profit (loss) at 30%	<b>(P 38,013,105)</b>
Adjustment for income subjected to lower income tax rates	<b>516,890</b>
Reversal of NOLCO	<b>( 238,918)</b>
Non-deductible interest expense	<b>(<u>1,265,347</u>)</b>
Tax income (expense) reported in profit or loss	<b>(<u>P 39,000,480</u>)</b>

The Parent Company's availment of income tax holiday pertaining to its original facilities in Davao depot expired in November 2010. Tax income for the year 2011 and 2010 pertains to the income of subsidiaries and portion of the Parent Company's income subjected to income tax (see Note 22). The tax income for the year 2009 pertains to the subsidiaries.

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

	<u>Consolidated Statements of Financial Position</u>		<u>Consolidated Statements of Comprehensive Income</u>	
	<u>2011</u>	2010	<u>2011</u>	2010
NOLCO	<b>P 2,102,918</b>	P 14,822,265	<b>(P 12,719,347)</b>	P 5,513,689
MCIT	<b>7,433,661</b>	-	<b>7,433,661</b>	-
Impairment loss	<b><u>5,452,655</u></b>	<u>4,441,337</u>	<b><u>1,011,318</u></b>	<u>4,441,337</u>
Deferred Tax Income			<b><u>P 4,274,368</u></b>	<u>P 9,955,026</u>
Deferred Tax Assets	<b><u>P 14,989,234</u></b>	<u>P 19,263,602</u>		

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

<u>Taxable Years</u>	<u>Original Amount</u>	<u>Tax Effect</u>	<u>Valid Until</u>
2011	P 3,658,732	P 1,097,619	2014
2010	1,655,285	496,586	2013
2009	<u>1,695,709</u>	<u>508,713</u>	2012
	<b><u>P 7,009,726</u></b>	<b><u>P 2,102,918</u></b>	

The Parent Company, PPMI and PPIPC are subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. For the year 2011, the Parent Company, PPMI and PPIPC's MCIT was higher than RCIT.

In 2011 the Group opted to claim itemized deductions.

## 23. RELATED PARTY TRANSACTIONS

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

### 23.1 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.

	<u>Amount of Transactions</u>	<u>Outstanding Balances</u>
	<u>2011</u>	<u>2011</u>
Sale of goods:		
Subsidiaries	P 445,262,054	P 45,541,285
Other related party	<u>128,664,820</u>	<u>43,831,665</u>
	<u>P 573,926,874</u>	<u>P 89,372,950</u>

The outstanding receivables from sales of goods to other related parties are presented as part of Trade Receivables under Trade and Other Receivables account in the statements of financial position (see Note 7). Subsequent to December 31, 2010, the Group was able to collect totaling P77.0 million from the outstanding balance.

The sales transactions with the subsidiaries are eliminated in the consolidated financial statements.

### 23.2 Purchase of Services

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

	<u>Amount of Transactions</u>	<u>Outstanding Balances</u>
	<u>2011</u>	<u>2011</u>
Purchase of services:		
Other related party	<u>P 391,193,996</u>	<u>P5,560,320</u>

The amounts of transactions are presented as part of the Cost of Sales in the statement of comprehensive income and the related outstanding payables for services obtained in 2011 are presented as part of Trade Payables under Trade and Other Payables account (see Note 16).

### **23.3 Rentals**

The Group has an operating lease agreement with Udenna Corporation. Total rent expense incurred in the years 2011 is P6.3 million and is presented as part of Rent account in profit or loss (see Notes 19 and 28.3).

### **23.4 Due from Related Parties**

The Group grants and obtains unsecured advances to and from PPHI, which are eliminated in the consolidated financial statements, and other unconsolidated related companies for working capital purposes. The advances bear a 9% interest per annum and are due on demand.

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

	<u>2011</u>
Balance at beginning of year	<b>P 14,750,495</b>
Collections	<b>( 5,269,692)</b>
Additions	<u>-</u>
Balance at end of year	<b><u>P 9,480,803</u></b>

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

### **23.5 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 consolidated statements of financial position (see Note 7).

### **23.6 Loan Collateral**

Surety and a negative pledge over the remaining shares of a stockholder secured the liabilities under letters of credits and trust receipts (see Note 15.1).

### **23.7 Advances to/from Subsidiaries**

The parent Company grants and obtains advances to and from its subsidiaries for working capital purposes. The advances are interest-bearing, unsecured and repayable within 12 months. The advances to subsidiaries are broken down as follows:

	<u>2011</u>
PPIPC	<b>P 35,219,104</b>
PPMI	<b>27,881,800</b>
SPTT	<b>6,226,989</b>
PGMI	<u><b>3,428,985</b></u>
	<b><u>P 72,756,878</u></b>

### 23.8 Management Fees

The Parent Company's non-trade receivable in its separate financial statement includes receivable from PPIPC representing management fees for the services rendered by the Parent Company to PPIPC. Under the Management Contract entered into by the Parent Company and PPIPC, the former will manage PPIPC:

- (a) to secure and maintain a strong market position for PPIPC in the real estate industry;
- (b) sustain the long-term profitability of PPIPC; and,
- (c) develop a core of competent and effective management professionals in PPIPC.

In return, PPIPC will pay a certain amount of management fee annually. Total management fee recorded in 2011 amounted P23.8 million. Total receivable from PPIPC as of December 31, 2011 amounted to P50.0 million. The foregoing transactions and outstanding balances are eliminated in the consolidated financial statements.

### 23.9 Advances for Future Investment

In 2011, the Group granted advances amounting to P150.0 million to PNX Chelsea Corporation (PCC), a wholly-owned subsidiary of Chelsea Shipping Corporation (CSC), a related party. The Group intends to invest the said advances to PCC in a planned joint arrangement with CSC.

## 24. EQUITY

### 24.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	June 30, 2012	2011	2010	June 30, 2012	2011	2010
Preferred – cumulative, nonvoting, non-participating, non-convertible into common shares - P1 par value						
Authorized:	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>	<u>P 50,000,000</u>	<u>P 50,000,000</u>	<u>P 50,000,000</u>
Issued and outstanding	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>P 5,000,000</u>	<u>P 5,000,000</u>	<u>P 5,000,000</u>
Common shares – P1 par value						
Authorized:						
Balance at beginning of period	<b>750,000,000</b>	750,000,000	400,000,000	<b>P 750,000,000</b>	P 750,000,000	P400,000,000
Increase in authorized stock	<u>1,000,000,000</u>	<u>-</u>	<u>350,000,000</u>	<u>1,000,000,000</u>	<u>-</u>	<u>350,000,000</u>
Balance at end of period	<u>1,750,000,000</u>	<u>750,000,000</u>	<u>750,000,000</u>	<u>P1,750,000,000</u>	<u>P 750,000,000</u>	<u>P400,000,000</u>
Issued and Outstanding*:						
Balance at beginning of period	<b>489,872,415</b>	376,824,940	269,160,875	<b>P 489,872,415</b>	P 376,824,940	P269,160,875

Stock dividends	244,936,202	113,043,634	73,664,065	244,936,202	113,043,634	107,664,065
Reclassification		<u>3,841</u>			<u>3,841</u>	
Balance at end of period	<u><b>734,808,617</b></u>	<u>489,872,415</u>	<u>376,824,940</u>	<u><b>P 734,808,617</b></u>	<u>P489,872,415</u>	<u>P376,824,940</u>

\* - Paid-Up Capital at Par Value

On April 23, 2012, the SEC approved the Parent Company's increased in authorized capital stock from Php 800.0 million divided into 800.0 million common shares with par value of Php 1.00 per share and 50.0 million preferred shares with par value of P1 per share to Php 2,550.0 million divided into 2,500.0 million common shares with par value of Php 1 per share and 50.0 million preferred shares with par value of Php 1 per share.

On September 7, 2010, the SEC approved the Parent Company's increased in authorized capital stock from Php 400.0 million divided into 400.0 million common shares with a par value of P1 per share to Php 800.0 million divided into 750.0 million common shares with par value of Php 1 per share and 50.0 million preferred shares with par value of Php 1 per share.

The preferred shares shall have the following features:

- (a) Non-convertible into common shares;
- (b) Non participating in any other corporation activities or other further dividends, non-voting except in cases specified by law;
- (c) No pre-emptive rights over the holders of common shares as to distribution of net assets in the event of dissolution or liquidation and in the payment of dividends at a specified rate. The Board of Directors shall determine its issued value at the time of issuance and shall determine its dividend rates and the dividends shall be paid cumulatively; and,
- (d) The preferred shares shall be redeemable at the Parent Company's option under such terms as the Board of Directors may provide at the time of issuance. It shall also be re-issuable when fully redeemed.

Moreover, preferred shares have the following features among others as provided in the subscription agreement;

- (a) Dividends on the Preferred Shares shall have a fixed rate of 11.50% per annum calculated in respect of each share with reference to the Issue Price thereof in respect to each dividend period.
- (b) Dividends shall be payable every September 21, December 21, March 21 and June 21 of each year (each a "Dividend Payment Date"). The dividends on the Preferred Shares shall be calculated on a 30/360 day basis and shall be paid quarterly in arrears on the last day of each 3-month dividend period (each a Dividend Payment Date), as and if declared by the Board of Directors. If the Dividend Payment Date is not a banking day, dividends shall be paid on the next succeeding banking day, without adjustment as to the amounts of dividends to be paid.

- (c) The Preferred Shares shall have priority in the payment of dividends at the stipulated rate at the time of issuance and in the distribution of corporate assets in the event of liquidation and dissolution of the Parent Company. As such, the Board of Directors to the extent permitted by law shall declare dividends each quarter sufficient to pay the equivalent dividend. Dividends on the shares shall be cumulative. If for any reason the Parent Company's Board of Directors does not declare a dividend on the Preferred Shares for a particular dividend period, the Parent Company shall not pay a dividend for said dividend period. However, on any future Dividend Payment Date on which dividends are declared holders of the shares shall receive the dividends accrued and unpaid to the holders of the Preferred Shares prior to such Dividend Payment Date. Holders of Preferred Shares shall not be entitled to participate in any other further dividends beyond the dividends specifically payable on the Preferred Shares.

Moreover, the subscription agreement requires that the Parent Company undertakes to maintain a long-term debt to equity ratio of 1:1 throughout the life of the preferred shares. The long-term debt to equity of the Company as of June 30, 2012 is 0.46 : 1 which more than complies the aforementioned covenant.

As of June 30, 2012 and December 31, 2011, the Parent Company has 41 stockholders owning 100 or more shares each of the Parent Company's capital stock.

#### ***24.2 Listing with PSE***

On July 11, 2007, the Parent Company offered its stocks for listing with the PSE. Number of common shares registered was 145.0 million with an issue price of P9.80. As of December 31, 2011, the number of holders of such securities is 41. The market price of the Parent Company's shares as of June 30, 2012 and December 31, 2011 is P8.15 and P11.28 respectively. The June 30, 2012 is after adjustment to 50% stock dividend declared and distributed during the year.

#### ***24.3 Additional Paid-in Capital***

In 2010, the Parent Company issued 5.0 million of its preferred shares at P100 per share. The excess of par value for such subscription amounting to P495.0 million was recorded as part of Additional Paid-in Capital account in the consolidated statements of financial position. In addition, the excess of the selling price over the acquisition cost of the treasury shares sold in 2010 also constitutes the Additional Paid-in Capital account.

In 2009, the Social Security System (SSS) has bought an initial 2.83% stake in the Parent Company representing 7.5 million subscribed common shares for P42.0 million or at P5.60 per share. The excess of par value for such subscription amounting to P34.5 million was recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

In 2007, the Parent Company listed its shares of stock with PSE. Premiums received in excess of the par value during the public offering amounting to P227.1 million were recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

#### **24.4 Treasury Shares – At Cost**

The details of this account are as follows:

	Shares			Amount		
	2011	2010	2009	2011	2010	2009
Balance at beginning of year	-	3,849,000	3,849,000	P -	P 17,252,140	P17,252,140
Issuance during the year	-	( 3,849,000)	-	-	( 17,252,140)	-
Balance at end of year	-	-	3,849,000	P -	P -	P 17,252,140

#### **24.5 Retained Earnings**

On March 08, 2012, the stockholders ratified the BOD’s approval of 50% stock dividends (or a total of 244.9 million shares), valued at par and distributed on April 26, 2012 to stockholders of record as of March 28, 2012. In addition, cash dividends of 10 centavos per share totaling to P49 million were also declared and paid 2012.

On March 11, 2011, the stockholders ratified the BOD’s approval of 30% stock dividends (or a total of 113.0 million shares), valued at par and distributed on May 6, 2011 to stockholders of record as of April 8, 2011. In addition, cash dividends of 10 centavos per share totaling to P37.6 million were also declared and paid in 2011.

On March 21, 2011, June 21, 2011, September 21, 2011 and December 1, 2011, the BOD declared and approved the payment of cash dividend to preferred shareholders totaling to P70.7 million.

On June 15, 2010, the stockholders ratified the Board of Directors’ approval of a 40% stock dividends (or a total of 107.7 million shares), valued at par and distributed on October 21, 2010 to all stockholders of record as of September 24, 2010. In addition, cash dividends of five centavos per share totaling to P13.7 million were also declared and paid in 2010.

On May 29, 2009, the Parent Company’s stockholders ratified the Board of Directors’ approval of a 40% stock dividends (or a total of 73.7 million shares), valued at par and distributed on August 3, 2009 to all stockholders of record as of July 8, 2009.

#### **24.6 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:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Total liabilities	<b>P 7,896,328,380</b>	P7,687,552,446
Total equity	<u>2,991,362,928</u>	<u>2,863,358,567</u>
Debt-to-equity ratio	<u><b>2.64 : 1.0</b></u>	<u>2.68 : 1.0</u>

The increase of the total liabilities in 2012 and 2011 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.

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.

## 25. EARNINGS PER SHARE

Earnings per share were computed as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Net profit pertaining to common shares	<b>P 176,264,507</b>	P 276,742,832
Divided by weighted average number of outstanding common shares	<u>577,832,930</u>	<u>411,367,224</u>
Earnings per share	<u><b>P 0.31</b></u>	<u>P 0.67</u>

The Parent Company does not have dilutive shares as of June 30, 2012 and December 31, 2011. Accordingly, no diluted earnings per share was computed by the Group.

## 26. COMMITMENTS AND CONTINGENCIES

### *26.1 Capital Commitments*

As of December 31, 2011, the Group has commitments of more than P1,000.0 million for expansion on petroleum retail network, depot, terminalling and logistics facilities, information technology infrastructure and other major expansions related to its business development. The Group has a network of 255 opened retail service stations as of

June 30, 2012. An additional of 61 retail service stations are under various stages of completion as of June 30, 2012.

In 2012, the Group plans to expand further its petroleum retail service stations and carry out its investments in its subsidiaries to put up depot and terminalling facilities in strategic locations and complete its chain of logistical support to strengthen its foothold in the industry.

### ***26.2 Letters of Credits***

As of June 30, 2012 and December 31, 2011, the Parent Group has unused LCs amounting to P3,485.0 million and P6,600.0 million, respectively.

### ***26.3 Operating Lease Commitments – Group as Lessee***

The Group is a lessee under several operating leases. The leases have terms ranging from 2 to 15 years, with renewal options, and include annual escalation rates of 2% to 10%. The future minimum rentals payable under these cancelable operating leases are presented as follows:

	<u>2011</u>
Within one year	<b>P 83,832,424</b>
After one year but not more than five years	<b>222,766,728</b>
More than five years	<b><u>460,060,085</u></b>
	<b><u>P 766,659,237</u></b>

Total rent expense for the years 2011 amounted to P164.1 million (see Note 19).

### ***26.4 Operating Lease Commitments – Group as Lessor***

The Group is a lessor under several operating leases with third parties. The leases have terms ranging from 2 to 15 years, with renewal options, and include annual escalation rates of 2% to 10%. The future minimum rentals receivables under these cancelable operating leases are presented in the next page.

	<u>2011</u>
Within one year	<b>P 27,688,937</b>
After one year but not more than five years	<b>116,896,787</b>
More than five years	<b><u>94,958,743</u></b>
	<b><u>P 239,544,467</u></b>

Rent income in 2011 amounting to P76.1 million is presented as part of Fuel Service, Storage Income and Other Revenues account in the consolidated statements of comprehensive income.

### ***26.5 Others***

Except for the criminal case filed by the Bureau of Customs against the Parent Company's Chief Executive Officer, Dennis A. Uy for alleged violation of Sections 3602, 2501(l)(1) & (5), 1801, 1802 and 3604 of the Tariff and Customs Code of the Philippines before the Department of Justice (DOJ), there are no material and significant cases, complaints, claims filed against the Parent Company that would directly affect the liabilities and obligations thereof. Nonetheless, Mr. Uy has duly filed his counter affidavit and memoranda have been submitted to the DOJ. The case is still pending before the said government agency.

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, 2012, 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 three Months' Period Ended June 30, 2012 vs. June 30, 2011.**

#### ***Revenues***

The Group generated total revenues of ₱ 16.896 billion in 2012 which is 21% higher than its 2011 level of ₱ 13.979 billion, primarily due to the 19% increase in sales volume of refined petroleum products plus higher revenues from fuels service and storage.

Sales revenues from trading and distribution of petroleum products increased by 21% from ₱ 13.701 billion in 2011 to ₱ 16.609 billion in 2012 resulting principally from a wider distribution network and expanded institutional customer base and also as a result of improved price competitiveness. Average selling price for the current year is also higher by 2% at ₱38.72 per liter compared to ₱38.13 per liter during the same period in 2011 as a factor of higher average crude prices and product sales mix. The Parent Company had two hundred fifty five (255) Phoenix Fuels Life retail service stations as of June 30, 2012 compared to one hundred ninety (190) 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 ₱ 121 million from its fuels service, storage, port and other income in 2012 versus ₱ 105 million in 2011, a 17% increase compared to the same period last year.

#### ***Cost and expenses***

The Group recorded cost of sales and services of ₱ 15.842 billion, an increase of 22% from its 2011 level of P 12.999 billion primary due to 19% increase in the sales volume of petroleum products. Average unit costs this year were also higher by 2% compared to the same period last year as a result of higher petroleum product 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 2012 is ₱ 206 million versus 2011 first semester net income of ₱ 305 million. The decline in net income is a result of low net income in the second quarter of 2012 which was brought about by the sharp decline of the petroleum products in the world market. Coming from March 2012 average of US\$136.16 and US\$ 134.48 per barrel for Automotive Diesel Oil (ADO) and Motor Gasoline (MOGAS) respectively, to a 2<sup>nd</sup> quarter average of US\$121.58 and US\$116.69 per barrel respectively. This is a decline of 11% and 13% for the respective aforementioned products. The sharp drop brings the oil companies to a position of buying expensive products and selling these on rollback price. The Company was able to manage the drop, with a minimal income for the quarter as the ultimate result. June 2012 also recorded all-time low for the year for ADO and MOGAS at US\$ 105.19/barrel and US\$ 94.16/barrel respectively, a rate lower by 22.7% and 30% lower than first

quarter average for ADO and MOGAS products respectively.

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.

The Parent Company gets new approvals with the BOI for its two (2) new facilities. Both the Cagayan de Oro City and the Bacolod City were registered and issued certification by the BOI last May 12, 2012. The registration entitles the Parent Company ITH for five years from registration plus other fiscal and non-fiscal incentives accorded to BOI registered entity.

### **Financial Condition**

*(As of June 30, 2012 versus December 31, 2011)*

Total resources of the Group as of June 30, 2012 stood at ₱ 10.887 billion, a growth of 3% over the ₱ 10.551 billion as of December 31, 2011.

Cash and cash equivalents decreased by 10% from ₱ 886 million to ₱ 796 million due to timing in settling various liabilities as well as collections of receivables.

The Group's liquidity position continued to be strong with Current Assets amounting to ₱ 6.661 billion as of June 30, 2012, down by only 1% from ₱ 6.731 billion as of December 31, 2011.

Trade and other receivables decreased by 12%, from ₱ 2.787 billion as of December 31, 2011 to ₱ 2.453 billion as of June 30, 2012, which were mainly driven continuous improvement of collection efficiency and increasing cash sales. The Group continue to enhance its credit policies to minimize overdue customer past due accounts.

Inventories increased by 7%, from ₱ 2.133 billion as of December 31, 2011 to ₱ 2.280 billion as of June 30, 2011 as the Group's inventory strategy of maintaining inventory level ranging from 20 days to one month of average costs of sales.

Due from related parties and Due to parent company in June 30, 2012 and December 31, 2011 is ₱ 9.8 million and ₱ 9.5 million respectively. The increase of 4% is due to various charges to related party during the year.

Input taxes-net increased by 60% in 2012 is the result of increasing importation and the input taxes on the capital expenditures.

Other current assets are at ₱ 226.6 million and ₱ 167.6 million level for June 30, 2012 and December 31, 2011 respectively. The increase represents the prepaid rentals on leased retail service stations properties and depot sites, prepaid insurance and other current assets.

As of June 30, 2012, the Group's property and equipment, net of accumulated depreciation, increased to ₱ 3.658 billion compared to ₱ 3.289 billion as of December 31, 2011 due to investments in additional depot capacity in existing areas and new additional sites. During first quarter, the Parent Company has completed its Depot facility in Bacolod City, additional storage tanks in Calaca, Batangas and Davao City plus retail stations in Luzon, Mindanao and Visayas.

Loans and Borrowings increased by 32% from ₱ 5.073 billion as of December 31, 2011 to ₱ 6.692 billion as of June 30, 2012. 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 61%, from ₱ 2.404 billion as of December 31, 2011 to ₱ 946.2 million as of June 30, 2012. 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 in accounts receivable.

Total Stockholders' Equity increased to ₱ 2.991 billion as of June 30, 2012 from ₱2.863 billion as of December 31, 2011 due the income for the two quarter less the cash dividend of ₱ 77.7 million declared during the semester.

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

<b>Selected Financial Ratios</b>	<b>Six (6) Months ended, June 30, 2012</b>	<b>Twelve months ended, December 31, 2011</b>
Current Ratio <sup>1</sup>	1.02 : 1	1.09 : 1
Debt to Equity <sup>2</sup>	2.64 : 1	2.68 : 1
Return on Equity <sup>3</sup>	7.03%	19.18%
Return on Assets <sup>4</sup>	1.92%	5.61%
Earnings Per Share <sup>6</sup>	0.31	1.00
Net Book Value Per Share-Common <sup>5</sup>	4.07	5.85

*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, 2012 compared to December 31, 2011 (Increase/decrease of 5% or more)**

10% decrease in Cash and Cash Equivalents

As a result of utilization of cash collection for payment of various liabilities and timing of accounts receivable collections

12% decrease in Trade and other receivables

A factor of continuous improvement of collection efficiency and ratio of cash sales .

17% increase on restricted deposits

Provision for incoming liabilities and interest income earned on restricted deposits.

60% increase in net input vat

VAT payment to importations and the accumulated input vat for capital expenditures.

35% increase in other current assets

Due to prepayments on increasing rentals of new sites for depots and retail stations. Prepaid insurance also increased with the increasing insurance coverage.

100% decrease in instalment contract receivable-non current

Account becomes current

11% increase on Property plant and equipments as a result of continuous expansion.

47% increase in other non-current assets

Increase in refundable deposits to various retail station sites and depot sites.

32% increase in Loans and Borrowings

Increase in utilization of trade lines (LC/TR) to finance inventory purchases.

61% decrease in Trade and other payables

Trade Payable to foreign suppliers financed by trade lines (LC/TR)

23% increase in non-current assets

This is the result of increasing security deposits or cash bond posted by dealers and customers to

secure Parent Company receivable.

**Material changes to the Group's Income Statement as of June 30, 2012 compared to June 30, 2011 (Increase/decrease of 5% or more)**

21% increase in Sale of petroleum products

Principally due to higher sales volume and higher selling prices compared to the same period of 2011.

22% increase in cost of sales

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

28% 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 19% for this quarter period compared to the same period of last year due to wider market coverage and additional institutional accounts.

17% increase in Finance Costs (net)

Due to interest on the instalment payable, bank term loan and TRs availed for the increasing purchases.

49% increase in other income/Costs

Due to provisioning of monthly inventory losses and various other items

12% increase in provision for income taxes

Increase in provisioning for portion of expired income tax holiday.

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 08, 2012 at the Marco Polo Hotel, Davao City, Philippines.
2. Stock Dividend declared by the Board of Directors was approved by the Stockholders during the March 08, 2012 Annual Stockholders' meeting. This entitles all stockholders of record as of March 28, 2012 and shall be distributable on April 26, 2012.
3. The Parent Company executed a Convertible Notes Facility Agreement worth Php 500 million with warrants offering amounting to Php 180 million with BDO Unibank, Inc last, 11 July 2012 at the BDO Corporate Center, Makati City. The issuance of corporate notes is part of the Company's plan to raise long-term capital, finance capital expenditures and refinance short term debt.

The issuance of the warrants shall be subject to the consents and approvals of the stockholders during the Special Stockholders' Meeting on 06 September 2012 and the appropriate government authorities.

4. The Board of Directors of the Parent Company approved the acquisition of Chelsea Shipping Corp. (CHELSEA) as well as the terms and conditions of the transaction. Under the law, the transaction still requires the stockholders approval in a meeting duly called for that purpose as well as the approval from the appropriate government authorities. As approved also by the Board of the Parent Company, the transaction shall be taken up during a Special Stockholders' Meeting on 06 September 2012. Purchase price is P 1.578 billion of which 90% is via share-for Share swap, 10% is cash. The 10% cash component is to cover taxes and other statutory payments to be paid by the shareholder of CHELSEA.

The 90% Share-for Share Swap wherein the Company shall issue in favor of the Sellers thirty (30) new common shares of the Parent Company for every one (1) share of CHELSEA.

Accordingly, One Hundred Seventy One Million Two Hundred Fifty Thousand Seven Hundred Ninety Nine (171,250,799) new common shares from the unissued authorized capital stock of the Company shall be issued in favor of the Sellers in proportion to the latter's respective shareholdings in CHELSEA

5. On July 18, 2012, the Parent Company signed with Maybank Philippines Inc. a 5-year term loan amounting to P 300 million. Drawdown of the said loan was subsequently done by the Parent Company.
6. 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.
7. 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.

8. 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.
9. 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