



**Ms. Justina F. Callangan**

Director, Corporate Finance Department  
Securities & Exchange Commission  
EDSA, Greenhills  
Mandaluyong City

**Janet A. Encarnacion**

Head, Disclosure Department  
Philippine Stock Exchange  
PSE Center, Exchange Road  
Ortigas, Pasig City

Mdms:

We are herewith submitting the Definitive Information Statement (SEC Form 20-IS) of our company for your consideration and approval.

Thank you and best regards.

Very truly yours,

**Atty. Socorro Ermac Cabreros**  
Corporate Secretary

**PHOENIX PETROLEUM PHILIPPINES, INC.**

Head Office: Phoenix Bulk Depot, Barangay Pampanga, Lanang,  
8000 Davao City, Philippines  
Davao Trunkline 082-235-8888 Fax: 082-2330168

Manila Office: 25th Floor, FORT LEGEND TOWERS, 3rd Avenue corner 31st St., Bonifacio Global City  
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SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 20-IS  
INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

[ ] Preliminary Information Statement  
[X] Definitive Information Statement

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

3. Country of Incorporation: Philippines

4. SEC Identification Number: A200207283

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

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

7. Company's telephone number, including area code: (082) 233-0168

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

March 11, 2011, 2:00 p.m.  
Marco Polo Hotel  
Davao City

9. Approximate date on which the Information Statement is first to be sent or given to security holders: February 17, 2011

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

<u>Title of Each Class</u>	<u>Number of Shares</u>
Common Shares, Php1.00 par value	<u>376,824,940</u>
Preferred Shares, Php 1.00 par value	<u>5,000,000</u>

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

Yes X No \_\_\_\_\_

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

Philippine Stock Exchange, **376,824,940** Common Shares

**PART I.**

**INFORMATION REQUIRED IN INFORMATION STATEMENT**

**A. GENERAL INFORMATION**

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

- (a)     Date                :     **March 11, 2011**  
         Time                :     **2:00 p.m.**  
         Place               :     **Marco Polo Hotel**  
                                     **Davao City**

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

- (b)     Approximate date on which the Information Statement is first to be sent or given to security holders: **February 17, 2011**

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

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

Within ten (10) days after demanding payment for his shares, a dissenting stockholder shall submit the certificate(s) of stock representing his shares to the Company for notation

thereon that such shares are dissenting shares. His failure to do so shall, at the option of the Company, terminate his appraisal rights. No demand for payment as aforesaid may be withdrawn by the dissenting stockholder unless the Company consents thereto.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the Company cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Company and third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment: Provided, further, that upon payment by the Company of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the Company.

The proposed corporate actions are not among those instances provided under Section 81 of the Corporation Code wherein a stockholder may exercise his right to appraisal.

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

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

### **B. CONTROL AND COMPENSATION INFORMATION**

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

- (a) Voting Securities

As of **January 31, 2011**, the total number of shares outstanding and entitled to vote are **376,824,940** shares.

- (b) Record Date

The record date for purposes of determining the stockholders entitled to notice of and to vote at the Annual Meeting is **February 14, 2011**.

(c) Voting Rights

In the election of directors, stockholders of record as of **February 14, 2011** shall be entitled to vote in person or by proxy, as many votes as there are directors elected. If he will vote thru a proxy, the By-Laws of the Company requires the submission of the accomplished proxy form to the Corporate Secretary for validation and authentication at least ten **(10)** days before the date of the Annual Meeting.

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

In the election of directors, each stockholder shall be entitled to cumulate his votes in the manner prescribed by Title III, Section 24 of the Corporation Code of the Philippines.

(d) Security Ownership of Certain Record and Beneficial Owners and Management as of **January 31, 2011.**

(1) Security Ownership of Certain Record and Beneficial Owners

As of **January 31, 2011**, the following are the owners of the Company's common stock in excess of five percent (5%) of the total outstanding shares:

Title of Class of Securities	Name/Address of Record Owners and Relationship with Phoenix		Name of Beneficial Owners/Relationship with Record Owner		Citizenship	No. of Shares Held	% of Ownership
Common	Phoenix Petroleum Holdings, Inc.	Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City	Record Owner is the direct beneficial owner		Filipino	200,018,000	53.08%
	Majority Shareholder						
Common	PCD	Nominee	Record Owner		Filipino	106,527,88	28.27 %

Corporation (Filipino)	is the indirect	0
37/F Tower 1, The	beneficial	
Enterprise Center, 6766	owner	
Ayala Ave. cor. Paseo de		
Roxas, Makati City		

Shareholder

Common	Udenna Corporation	Record Owner	Filipino	50,322,986	13.35 %
	(Formerly Udenna	is the direct			
	Holdings Corporation)	beneficial			
	Stella Hizon Reyes Road,	owner			
	Bo. Pampanga, Lanang,				
	Davao City				

Shareholder

As of **January 31, 2011**, the following are the beneficial owners under the PCD Nominee Corp. of the Company's common stock in excess of five percent (5%) of the total outstanding shares:

<b>Title of Class of Securities</b>	<b>Name/Address of Record Owners and Relationship with Phoenix</b>	<b>Name of Beneficial Owners/Relationship with Record Owner</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>% of Ownership</b>
Common	CLSA Philippines, Inc.  Trafalgar Plaza, Unit 17-D, 105 H.V. Dela Costa St. Salcedo Village, Makati City, Metropolitan Manila  Shareholder	Record Owner is a trading participant/stockbroker	Filipino	20,082,400	5.00 %
Common	Social Security System  SSS Bldg, East Avenue Diliman, Quezon City Metropolitan Manila  Shareholder	Record Owner is the Social Security System of which the investments are managed and handled by the Social Security Commission	Filipino	36,063,998	9.57 %

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

<b>Name of Stockholders</b>	<b>Representative</b>
1. Phoenix Petroleum Holdings, Inc.	Domingo T. Uy
2. Udenna Corporation	Cherylyn C. Uy
3. CLSA Philippines, Inc.	<i>Ultimate Beneficial Owners representing CLSA Philippines, Inc. shall be made available after lapse of the Record Date and only after submission of their respective proxy forms for validation</i>
4. Social Security System	<i>The name of the representative of the Social Security System shall be made available after lapse of the Record Date and only after submission of their respective proxy forms for validation</i>

5. PCD Nominees/ Trading Participants

*Ultimate Beneficial Owners representing the trading participants shall be made available after lapse of the Record Date and only after submission of their respective proxy forms for validation*

(2) Security Ownership of Management

As of **January 31, 2011** the security ownership of management is as follows:

<b>Title of Class of Securities</b>	<b>Name/Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Citizenship</b>	<b>% of Ownership</b>
<b>Directors:</b>				
Common	Dennis A. Uy Penthouse Valero Tower, 122 Valero St., Salcedo Village, Makati City	1,574,664  direct beneficial owner	Filipino	0.42%
Common	Dennis A. Uy &/or Cherylyn C. Uy Penthouse Valero Tower, 122 Valero St., Salcedo Village, Makati City	433,160  direct beneficial owner	Filipino	0.11%
Common	Domingo T. Uy Insular Village Phase II, Lanang, Davao City	254,801  direct beneficial owner	Filipino	0.07%
Common	Romeo B. De Guzman Hillsborough, Alabang Village, Muntinlupa City	505,400  direct beneficial owner	Filipino	0.13%
Common	Socorro T. Ermac Cabrerros 223 V. Mapa St., Davao City	40,741  direct beneficial owner	Filipino	0.01%



Common	Jose Manuel R. Quimson 28 Osmeña St., Xavierville Subd., Loyola Heights, Katipunan, Quezon City	140,001  direct beneficial owner	Filipino	0.04%
Common	J.V. Emmanuel A. De Dios 95 A. Melchor St., Loyola Heights, Quezon City	70,001  direct beneficial owner	Filipino	0.02%
Common	Ricardo S. Pascua 16 Solar St., Bel-Air III, Makati City	1  direct beneficial owner	Filipino	0.00%
Common	Monico V. Jacob 7 <sup>th</sup> flr Philippine First Bldg, 6764 Ayala Ave., Makati City	1  direct beneficial owner	Filipino	0.00%
Common	Diana Pardo-Aguilar 205 Cadena de Amor Street Ayala Alabang Village Muntinlupa City	1  direct beneficial owner	Filipino	0.00 %

**Senior Management:**

Common	Joseph John L. Ong 80 Pola Bay, Southbay Gardens, Parañaque City	93,300  direct beneficial owner	Filipino	0.02 %
Common	Chryss Alfonsus V. Damuy Ph2 Blk 07 Lot 07, Wellspring Highlands Subd. Catalunan Pequeno Davao City 8000	28,000  direct beneficial owner	Filipino	0.00%

Common	Alberto D. Alcid Doña Socorro St., Belisario Heights Subd., Lanang, Davao City	40,740  direct beneficial owner	Filipino	0.01%
Common	Edgardo A. Alerta Arellano St., Davao City	216,720  direct beneficial owner	Filipino	0.05%
Common	Rebecca Pilar C. Caterio Margarita Village, Bajada, Davao City	58,562  direct beneficial owner	Filipino	0.01%
Common	Gigi Q. Fuensalida 155 Brillantes St. 5th Avenue, Caloocan City	28,000  direct beneficial owner	Filipino	0.00%
Common	Reynaldo A. Phala Block 5 Lot 20 Pioneers Village	14,000  direct beneficial owner	Filipino	0.00%

The other executive officers of the Company, Raymond T. Zorilla, Carlito V. Cruz, Jose Victor L. Cruz, William M. Azarcon, John Henry C. Yap do not own shares in the Company.

The number of aggregate shares for all directors and executive officers is **Three Million Four Hundred Ninety Eight Thousand Ninety Three (3,498,093)**.

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

(e) Change in Control

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

**Item 5. Directors and Executive Officers**

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

Office	Name	Age	Citizenship
<b>Directors</b>			
Chairman	Domingo T. Uy	64	Filipino
Director/President and Chief Executive Officer	Dennis A. Uy	37	Filipino
Director/Vice President/Treasurer	Jose Manuel R. Quimson	61	Filipino
Director/Chief Operating Officer	Romeo B. De Guzman	62	Filipino
Corporate Secretary/Asst. Vice President for Corporate Legal	Socorro T. Ermac Cabreros	46	Filipino
Director	J.V. Emmanuel A. de Dios	45	Filipino
Director	Diana Pardo Aguilar	47	Filipino
Independent Director	Ricardo S. Pascua	62	Filipino
Independent Director	Monico V. Jacob	65	Filipino
<b>Other Executive Officers</b>			
Chief Finance Officer	Joseph John L. Ong	51	Filipino
Vice President for Finance	Chryss Alfonsus V. Damuy	37	Filipino
Asst. Vice President for Human Resources, Corporate Affairs and Branding	Alan Raymond T. Zorilla	41	Filipino
Asst. Corporate Secretary	Gigi Q. Fuensalida	34	Filipino
Asst. Vice President for Sales in Visayas and Mindanao	Edgardo A. Alerta	56	Filipino
Asst. Vice President for Lubes	Alberto D. Alcid	55	Filipino
Asst. Vice President for Treasury	Reynaldo A. Phala	44	Filipino
Assistant Vice President for Luzon Commercial Sales	Carlito V. Cruz	55	Filipino
Assistant Vice-President for Engineering, Operations and Logistics	William M. Azarcon	46	Filipino
Assistant Vice President for Credit and Collections	Rebecca Pilar C. Caterio	39	Filipino
Assistant Vice President for Retail Sales Luzon	Jose Victor L. Cruz	50	Filipino
Supply Manager	John Henry C. Yap	36	Filipino
Manager of Depot Operations and Logistics of the Company	Alejandro U. Suan	47	Filipino

## Directors

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

### **Domingo T. Uy**

#### **Chairman**

Domingo T. Uy, Filipino, 64 years old, is a co-founder and has been a member of the Board of Directors of the Company since 2002. Mr. Uy was elected Chairman of the Board of Directors of the Company on February 15, 2007. Likewise, he is the Chairman of Granscor Corporation, a holding company of the Uy brothers engaged in real estate, mining and commodities trading. He is also a Director of Granland Resources Corporation, a corporation involved in real estate development, and Aquamines, Philippines, a firm engaged in prawn farming. Mr. Uy is currently involved in socio-civic programs and is a Director of the Philippine National Red Cross, Davao Chapter. He is also the Past President of the Davao City Sta. Ana Lions Club and the Kang Ha Uy Association, Davao Chapter.

### **Dennis A. Uy**

#### **Director, President and Chief Executive Officer**

Dennis A. Uy, Filipino, 37 years old, is the founder of the Company and has served as President and Chief Executive Officer since inception. He is currently the Chairman of the Board of Directors of Phoenix Petroleum Holdings, Inc., the holding company of the Company and Udenna Corporation, the ultimate parent entity of the Company. Mr. Uy is also the President and Chief Executive Officer of Udenna Management & Resource Corp. and its subsidiaries namely: Chelsea Shipping Corporation, Global Synergy Trade and Distribution Corporation, Udenna Development Corporation (UDEVCO), Value Leases Inc. and Udenna Foundation, Inc. In addition, he was an Independent Director of Transpacific Broadband Group, International, a publicly-listed firm. Mr. Uy is also a Member of the Management Association of the Philippines (MAP), the American Chamber of Commerce, Davao Chapter, the Davao City Chamber of Commerce and a Business Sector representative to the Chinatown Development Council in Davao. He was also Past-President of Apo Golf & Country Club and was a Director of Elias Lopez Sports Foundation. Mr. Uy holds a Bachelor of Science Degree in Business Management from the De La Salle University.

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

Romeo B. De Guzman, Filipino, 62 years of age, is currently the Chief Operating Officer of the Company. Mr. De Guzman has thirty-five (35) years of experience in the oil industry, covering retail, commercial, operations, distribution, finance, and corporate affairs. Prior to joining the COMPANY, Mr. De Guzman was the former Vice President-External Affairs for Asia Pacific of Shell, directly reporting to London, from 2004 to 2006. He was with Pilipinas Shell for twenty-five (25) years and served in various positions nationwide. National Accounts Manager from 1982 to 1983, Mindanao District Manager-General Sales from 1983 to 1986, later on as Retail Regional Manager for Metro Manila from 1986 to 1988 and he was later on appointed as Retail Regional Manager for Visayas and Mindanao from 1988 to 1991. From 1991 to 1994, De Guzman served as the Area Manager for North Luzon of Pilipinas Shell, until he was appointed GM/Vice President for Sales – Philippines and North Pacific Islands from 1995 to 2003. He also had attended various management and leadership courses in London, The Hague, and in other Asian countries. Mr. De Guzman also worked with Getty Oil Philippines Inc. for ten (10) years, holding various positions in retail and sales in the said company. Mr. De Guzman completed his Masters in Business Administration at San Sebastian College Manila. He holds a degree in Bachelor of Science in Commerce, Major in Management-Marketing also in San Sebastian College Manila.

**Jose Manuel R. Quimson**  
**Director, Vice President/Treasurer**

Jose Manuel R. Quimson, Filipino, 61 years old, is Vice President and Treasurer of the COMPANY. He was elected to the Company's Board of Directors on February 15, 2007. He is also the Vice President & Chief Operating Officer of Chelsea Shipping Corp. Currently, Mr. Quimson is a member of the Board of Directors of the Udenna Corporation and its subsidiaries. Previously, he was President of Petrotrade Philippines, Inc. a company providing bunkering services to international vessels. Mr. Quimson was also Vice Chairman of Herma Shipyard, Inc., a company engaged in the business of ship building, repair, port terminal services and fabrication. He also worked as President of Transman Shipping Corporation, operators of cargo vessels for inter-island shipping and the Transport Managers, Inc. a company engaged in customs brokerage, freight forwarding, general transport and heavy lift handling. Mr. Quimson was also the Managing Director of Delbros Group of Companies, where he started his professional career in 1970 as Financial Analyst. Mr. Quimson has more than 30 years of work experience in the shipping industry. He is a graduate of the MBA Program of the Ateneo de Manila University Graduate School of Business in 1972 and completed the first year of the MBM Program at the Asian Institute of Management. He holds a Bachelor of Arts Degree from the Ateneo De Manila University.

**Socorro T. Ermac-Cabreros**

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

Atty. Socorro T. Ermac Cabreros, 45 years old, is currently Asst. Vice President for Corporate Legal of the Company. She is also Corporate Secretary of the Company since February 15, 2007. She is likewise appointed as Corporate Secretary and member of the Board of Directors of Udenna Corporation and its subsidiaries. Prior to joining the Company, Atty. Ermac-Cabreros was a Legal Counsel of Philippine National Bank in Davao City where she handled and managed the various legal cases of the branches in Southern Mindanao particularly in the areas of General Santos City and the provinces of Davao del Norte and Davao Oriental. Atty. Ermac-Cabreros has also worked for various government agencies such as Office of the Ombudsman for Mindanao and later as Prosecutor for the Province of Davao del Norte after engaging in the private practice of law. She holds a Bachelor of Science Degree Major in Behavioral Science from Maryknoll College Foundation, Inc. and finished her law degree at the Ateneo de Davao University College of Law. She is also an active member of the Integrated Bar of the Philippines, and is currently the President of the Davao City Chapter. Atty. Ermac-Cabreros has over 20 years experience in the practice of law rendering legal opinions and consultation and handling and management of criminal, civil and administrative cases including investigation, litigation and prosecution.

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

**Director**

J.V. Emmanuel A. De Dios, Filipino, 44 years old, was initially elected as Independent Director of the Company on February 15, 2007. He was elected as a regular director last March 7, 2008. He is the President and CEO of Nido Petroleum Philippines, Pty Ltd. and Atty. De Dios served previously as Chairman of the Philippine National Oil Company, Exploration Corporation. Prior to PNOC-EC, Atty. De Dios was the Undersecretary of the Philippine Department of Energy where he supervised the Department's Planning Bureau and Administration, and Downstream Oil and Gas Industry. He was also an Associate of Romulo Mabanta Buenaventura Sayoc & De Los Angeles Law Office where he practiced Corporate, Commercial, Energy and Securities Law. Atty. De Dios also worked under former Chief Justice Hilario G. Davide, Jr. as a Senior Law Clerk where he engaged in legal research and drafting decisions. He also took time to be a Contributor of the Philippine Daily Star, responsible for reporting on the U.S. System of legal education and law practice. Atty. De Dios was also a professor at the St. Scholastica's College and a Senior Instructor at the University of the Philippines where he taught cost accounting and business law. He is an active member of the Integrated Bar of the Philippines where he served as Director for the KAMANAVA Chapter. He is also a member of the Council of Advisers at the Harvard Law School Club of the Philippines. Atty. De Dios took his Master of Laws at the Harvard Law School and completed his Bachelor of

Laws at the Ateneo de Manila University School of Law. He holds a Bachelor of Science degree in Business Administration from the University of the Philippines.

**Diana Pardo Aguilar**

**Director**

Diana Pardo-Aguilar, Filipino, 47 years old, is a business management professional who has extensive experience in board directorships (22 years), entrepreneurship (nine years), and investment banking (13 years). Her board directorship includes Philippine Seven Corporation, a licensee of the famous brand 7-11 convenience stores and a publicly-listed company in the Philippine Stock Exchange (PSE)., She is also a member of the Board Directors and Treasurer for Wenphil Corporation, the Philippine franchise holder of the globally-renowned food brand Wendy's Hamburger that is present in leading shopping malls and town centers in the Philippines. She currently sits as Board Director in seven (7) other firms and institutions engaged in asset and real property management, education, information technology, telecommunication and technology transfer. Ms. Pardo-Aguilar possesses a wide experience in investment banking, which she gained from her various stints such as: CLSA Exchange Capital Corporation, a leading Philippine investment house specializing in corporate finance, stock brokering and investment management; Vice-President for Exchange Capital Corporation and Jardine Fleming Exchange Capital Corporation. She holds a Masters Degree in Business Administration major in International Business and graduated with academic citations from Pepperdine University in Sta. Monica California. She is also a Computer Science graduate from the De La Salle University.

**Ricardo S. Pascua**

**Independent Director**

Ricardo S. Pascua, Filipino, 62 years old, was elected Independent Director of the Company on February 15, 2007 and currently serves in the same capacity for various corporate and foundation boards. He retired from active employment but sits as Chairman of the Board of Readyfoods Manufacturing Corporation, a manufacturer of ready-to-eat foods. Mr. Pascua is also the Chairman of the Facilities and Property Management Technologies, Inc., the Biometrix Technology Philippines Corporation, which distributes IP-based security and communications systems. Prior to his retirement, Mr. Pascua was the Vice Chairman, President and Chief Executive Officer of the Metro Pacific Corporation, where he was tasked to refocus Metro Pacific as a premier property holding and development company in the Philippines. He was the Executive Director of the First Pacific Company Limited involved in setting overall group policy and strategic direction. As part of his investment oversight duties, he served in companies such as SMART Communications, Inc., the United Commercial Bank in San Francisco, CA, the First Pacific Bank in Hong Kong, and the 1<sup>st</sup> eBANK in

Manila. Mr. Pascua oversaw the preparation and initial execution of the Master Development Plan when he was Vice Chairman, President and Chief Executive Officer of Fort Bonifacio Development Corporation, now known as the Bonifacio Land Corporation. Mr. Pascua completed his Master in Business Management from the Asian Institute of Management. He graduated with a Bachelor of Arts Degree Major in Economics, Cum Laude, from the Ateneo de Manila University.

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

Monico V. Jacob, 65 years old, was elected as Independent Director of the Company on March 7, 2008. He is at present the President and Chief Executive Officer of the STI Education Services Group, a network of over 100 colleges and educational centers in the Philippines. Concurrently, Mr. Jacob also sits as Chairman and Managing Partner of CEOs, Inc., a business and management consultancy Firm; Chairman of Global Resource for Outsourced Worker, Inc., a professional placement company for healthcare and ICT workers. His areas of specialty include energy, corporate law, corporate recovery and rehabilitation work. Prior to his present positions, Mr. Jacob was Chairman and Chief Executive Officer of Petron Corporation. As Chairman, he presided over its privatization and implemented and led the partnership of the government with Saudi Aramco in Petron. He also presided over the Initial Public Offering (IPO) of Petron shares which has since been hailed as the most successful IPO offering in the country. He retired from Petron at the close of the President Fidel V. Ramos presidency in July 1998. He was also Chairman and CEO of Philippine National Oil Company (PNOC) and all of its subsidiaries. As Chairman of the PNOC, he presided over the privatization of the PNOC Dockyard and Engineering Corporation. Prior to joining the government, Mr. Jacob was Partner of the law firm of Jacob Acaban Corvera Valdez and Del Castillo and was an active trial lawyer. He is a member of the following group: Management Association of the Philippines (MAP) where he served as President for 1998; Board of FINEX; Integrated Bar of the Philippines. Mr. Jacob finished his Bachelor of Arts degree with a Major in Liberal Arts from the Ateneo de Manila University in 1971.

**Directorships in Other Reporting Companies**

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

<b>Name of Director</b>	<b>Name of Reporting Company</b>	<b>Position Held</b>
Ricardo S. Pascua	Boulevard Holdings, Inc.	Independent Director
Monico V. Jacob	Jollibee Foods Corporation	Independent Director
	Chemrez Technologies, Inc.	Independent Director



#### Period of Directorship in the Company

<u>Name</u>	<u>Period of Service</u>	<u>Term of Office</u>
Dennis A. Uy	since incorporation to present	1 year
Domingo T. Uy	since incorporation to present	1 year
Socorro T. Ermac-Cabreros	2006 to present (except 2009, 2010)	1 year
Romeo B. De Guzman	since incorporation to present	1 year
Jose Manuel R. Quimson	2007 to present	1 year
J.V. Emmanuel De Dios	2007 to present	1 year
Diana Pardo Aguilar	2010 to present	1 year
Ricardo S. Pascua	2007 to present	1 year
Monico V. Jacob	2008 to present	1 year

#### Certificate of Qualification of the Independent Directors

The Company will submit an updated Certificate of Qualification of all independent directors pursuant to the October 20, 2006 notice of the commission on or before the Company's distribution of the Definitive Information Statement to the security holders on February 17, 2011.

#### Certificates of Attendance of Directors for 2010 and Compliance with the Provisions of the Manual of Corporate Governance

Copies of the Corporate Secretary's Sworn Certifications on the attendance of Directors for the year 2010 and compliance with the Provisions of the Manual of Corporate Governance are attached hereto as **Annexes "D" and "E"**, respectively.

#### Executive Officers

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

**Joseph John L. Ong**, Filipino, 51 years old, married, is the Chief Finance Officer of the Company. Prior to his employment in the Company, he spent almost ten (10) years at Primeworld Digital Systems, Inc. (Pacific Internet Phils.) initially as Vice President and CFO and eventually as Executive Vice President – Operations and Chief Finance Officer from 2008 - 2009. He also worked for twelve (12) years with Ginebra San Miguel, Inc. (then known as La Tondea Distillers, Inc.), then the country's 2<sup>nd</sup> largest beverage company and a listed subsidiary of San Miguel Corporation. He was its Vice President – Treasury from 1995 – 1999, at which time he headed the team that took the company public in 1994 and was primarily responsible for institutional-investor relations. Prior to the San Miguel Group, he held various positions at the Bank of the Philippine Islands & Ayala Investment & Development Corp. (before it merged with BPI) from 1980-1986. He received his Bachelor of Science in Commerce from De La Salle University in 1980.

**Chryss Alfonsus V. Damuy**, Filipino, 37 years old, is the Vice-President for Finance and the Comptroller of the COMPANY. Prior to his employment with the Company, he was the Controller of Lapanday Foods Corporation and held various positions in its subsidiaries including the Fresh Asia Produce as Accounting Manager and the Mindanao Fresh Produce Services Corporation as Assistant Accounting Manager. He also worked as Chief Accountant of the Regional Educators Multi-purpose Cooperative and as its Branch Officer. Mr. Damuy started his professional career as College Instructor of the Holy Cross of Davao College where as a dean's lister, he earned his Bachelor of Science Degree in Accountancy in 1997. Mr. Damuy is a Certified Public Accountant.

**Alan Raymond T. Zorrilla**, Filipino, 41 years of age and is currently appointed as the Asst. Vice President for Human Resources and Corporate Affairs and Branding. Prior to his employment with the Company, he was Chief Legal Counsel of Unioil Group of Companies. He also sat as Director for Freeport Services Corporation, a 100% subsidiary of Subic Bay Metropolitan Authority. Atty. Zorrilla was engaged in the litigation practice with Pangilinan Britanico Sarmiento And Franco Law Offices, a Makati-based Law Office before his engaging into Corporate Practice. Atty. Zorrilla is a graduate of the San Beda Law School in 1994.

**Edgardo A. Alerta**, Filipino, 56 years old, is the Assistant Vice President for Sales for Visayas and Mindanao. Prior to joining the COMPANY, Mr. Alerta served as Municipal Councilor of the Municipality of Matanao, Davao Del Sur, Philippines. He worked with Pilipinas Shell Petroleum Corporation for 15 years where he started as a Marketing Sales Executive and later progressed to District Sales Manager. He also worked as a Technical Services Engineer of Getty Oil Philippines and was an Energy Examiner of the Department of Energy. Mr. Alerta, who is a licensed Mechanical Engineer, has more than 25 years work experience in the energy and petroleum industries from the government and multinational corporations. He holds two degrees in Engineering: Bachelor of Science Degrees Major in Mechanical Engineering and Electrical Engineering from the Cebu Institute of Technology.

**Alberto D. Alcid**, Filipino, 55 years old, is the Assistant Vice President for Lubes and Chemicals of the COMPANY. Mr. Alcid started his professional career in the petroleum industry with Caltex Philippines, Inc. as a Sales Representative. He later became the Regional Manager for the Visayas and Mindanao where he strengthened the market position of Caltex in those regions. He was later promoted as the National Manager for Lubes and Greases of Caltex Philippines where he lead the integration of the manufacturing and marketing operations of lubes and greases and strengthened the market position of the brand in the retail, commercial and high street trades. Mr. Alcid holds a Bachelor of Science Degree Major in Mechanical Engineering from the De La Salle University.

**Rebecca Pilar C. Caterio**, Filipino, 39 years old, is currently the Assistant Vice President for Credit and Collection of the Company. Previously, she was the Controller of Lapanday Packaging Inc., a company engaged in the manufacturing of cartons and in the production of fresh pineapple and vegetable. She was also the Accounting Manager of Fresh Asia Produce Company International Corporation, a company which is also owned by the Lapanday Group and is primarily engaged in the trading and marketing of bananas. Ms. Caterio started her professional career with the SGV & Co. as a Staff Auditor. She is a Certified Public Accountant and a member of the Philippine Institute of Certified Public Accountants (PICPA) since 1993. Ms. Caterio holds a Bachelor of Science Degree in Commerce, Major in Accounting from the Ateneo De Zamboanga.

**Carlito V. Cruz**, Filipino, 55 years old, is currently the Assistant Vice President for Luzon Commercial Sales of the Company. Prior to his employment with the Company, he served as the Senior Account Sales executive of Petron Corporation for 16 years. He had also been the Technical Engineer of the same company for 5 years. He had a short stint as a Production Supervisor for 2 years at the Imperial Textile Mills (ITM) He started his career as a Laboratory Analyst with Philippine Ink Corporation. Mr. Cruz is a licensed Chemical Engineer and earned his degree at the Adamson University.

**Reynaldo A. Phala** Filipino, 44 years old, is the Assistant Vice President for Treasury. He joined the Company on October 16, 2008 as its Credit and Collection Manager. Before joining the Company, he was with various banks for seventeen (17) years. He also worked with the Department of Trade and Industry as Municipal Trade and Industry Officer for a year. He is a graduate of Bachelor of Science in Civil Engineering from the Mindanao State University-General Santos City. Mr. Phala is a licensed Civil Engineer having passed the Civil Engineering Licensure Examination last May 1989.

**Jose Victor L. Cruz**, Filipino, 50 years old, is currently the AVP – Retail Luzon. Mr. Cruz has more than twenty-five (25) years of experience in the oil industry covering retail, commercial, lubricants sales, international business (aviation and shipping for Chevron and Texaco), marketing and distribution, and corporate affairs. Prior to joining the Company in 2010, Mr. Cruz was Vice President for Retail Network Operations of Flying V in 2008 before he was promoted to Chief Operating Officer in 2009. He was COO of Citadel Commercial, Inc. from 2001-2002 before he ventured into private enterprise. He held various positions in Caltex Philippines Inc. from 1983 up to 1991 when he handled CPI's International Business. Eventually, Joey was appointed Executive Assistant – Marketing Commercial in 1992. In 1994, he held the position of District Manager – Luzon South Commercial and in 1996, as DM – Luzon Retail, this area being the highest growth region in the country. He was sent to Bangkok, Thailand to observe oil deregulation in action. When the oil deregulation law was enacted, Total Petroleum Philippines Inc. entered the Philippine market and

Mr. Cruz joined them as General Manager for Retail. He received training in operations and marketing in France, convenience retailing in England and retail operations and network development in South Africa. Mr. Cruz has completed his MBA curriculum at the De La Salle University. He is a graduate of B.S. Industrial Management Engineering, Minor in Mechanical Engineering and is a Professional Industrial Engineer under the Philippine Institute of Industrial Engineers.

**William M. Azarcon**, Filipino, 64 years old is currently the Asst. Vice President for Operational Engineering and Logistics. Mr. Azarcon has twenty-six (26) years experience in the oil industry, covering engineering operations, retail and distribution of bulk & packed products nationwide. Mr. Azarcon used to work for Pilipinas Shell Petgroleum Corporation and served as Field Engineer in Operations nationwide constructing Depots & related facilities, i.e, jetties, submarine piupelines, bulk storage tanks among others. He held various positions in operations as Superintendent of Poro Installation- the biggest installation of Shell outside Pandacan. He likewise served as Head of Operations of North Luzon and transferred to Retail Engineering as Retail Engineering Manager nationwide. He also served as RVI (Retail Visual Identity) Manager. Mr. Azarcon attended training in engineering courses in Japan, Australia & New Zealand and in different countries in Southeast Asia. After retiring from Shell, Mr. Azarcon engaged in business as Retail Engineering Contractor of Shell. He holds a degree in Bachelor of Science in Mechanical Engineering from Mapua.

**Gigi Q. Fuensalida**, Filipino, 33 years old, is presently the Assistant Corporate Secretary of the Company. Prior to her employment with the Company, she was one of the Senior Associates of the Villaraza Cruz Marcelo and Angangco Law Office. For six years, Atty. Fuensalida specialized in Civil, Commercial and Criminal Litigation wherein she developed strategies for complex litigation and actively participated in the prosecution and defense of criminal cases before the regular trial courts, quasi-judicial bodies and the appellate courts. She started her professional career as an apprentice in the Gaviola Law Offices back in May 2000. Atty. Fuensalida holds a degree in Bachelor of Arts Major in Political Science from the Ateneo de Manila University. She further obtained her Juris Doctor degree from the same institution and graduated with honors in 2002. Atty. Fuensalida is a member of the Integrated Bar of the Philippines since 2003.

**Alejandro U. Suan**, Filipino, 47 years old, is currently the Manager of Depot Operations and Logistics of the Company. Prior to his employment with the Company, he worked with Paramina Earth Technologies, Inc. where he started as General Foreman and later progressed to General Manager. Mr. Suan also worked for Atlas Mining, Inc. in both Mining Operations and Marketing and Sales. He holds a Bachelor of Science Degree in Mining Engineering from the Cebu Institute of

Technology and is a licensed Mining Engineer. Mr. Suan has over 18 years work experience in the mining industry.

**John Henry C. Yap**, Filipino, 36 years old, is currently the Trading and Supply Manager of the Company since 2009. Mr. Yap manages the supply function for the company's requirement for Petroleum products, coordinates and monitors the operational aspect of all importation in Batangas and Davao and reviews product availability and/or pricing information with suppliers, sales and customers. Prior to his employment with the Company, he worked as a Purchasing Manager for Golden Forum Land Inc. for about a year and also became the Supply Manager of Oilink International Corp. for four years. Mr. Yap started his professional career with Unioil Petroleum Philippines, Inc. as a Purchasing Manager for five years and eventually became their Lubricants Supply Manager. Mr. Yap has a Bachelor degree in Industrial Engineering from De La Salle University and further acquired his Masteral Degree in Business Administration from the Ateneo Graduate School of Business.

#### Period of Service in the Company

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

#### Nominations of Directors and Independent Directors

The following are the final nominees for election to the Board of Directors at the forthcoming Annual Meeting:

1. Domingo T. Uy
2. Dennis A. Uy
3. Jose Manuel R. Quimson

4. Romeo B. De Guzman
5. J.V. Emmanuel A. de Dios
6. Socorro Ermac Cabrereros
7. Diana Pardo Aguilar
8. Ricardo S. Pascua (Independent Director)
9. Monico V. Jacob (Independent Director)

Messrs. Ricardo S. Pascua was nominated Independent Director by Jose Manuel R. Quimson. On the other hand, Mr. Monico Jacob was nominated by Mr. Romeo B, De Guzman. Mr. Quimson and Mr. De Guzman or any of the nominated directors is not related to either Mr. Pascua or Mr. Jacob by consanguinity or affinity and has no professional or business dealings with them. Messrs. Pascua and Jacob are neither officers nor substantial stockholders of the Company. They have always possessed the qualifications and none of the disqualifications of independent directors. Jacob Acaban Corvera Valdez and Del Castillo law offices, of which Mr. Jacob is a partner, has not at any time rendered any service to the Company. Atty. Jacob holds only one (1) share in the Company. He has not at any time rendered any service to the Company.

The members of the Nomination Committee are: Atty. J.V. Emmanuel A. de Dios, Chairman, Diana Pardo Aguilar, Ricardo S. Pascua, (Independent Director), and Raymond Allan T. Zorrilla.

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

(For individual write-ups of the aforementioned nominees, please refer to Item 5 of this Information Sheet)

(b) Significant Employees

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

(c) Family Relationships

With the exception of Messrs. Domingo T. Uy and Dennis A. Uy who are related to each other by consanguinity within the first civil degree, there are no other family

relationships either by consanguinity or affinity up to the fourth civil degree among the directors, executive officers, and persons nominated and chosen by the Company to become directors and executive officers of the Company.

(d) **Involvement in Certain Legal Proceedings**

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

- (i) Any insolvency or bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the insolvency or within two years prior to that time;
- (ii) Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- (iii) Any final and executory order, judgment, or decree or any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and
- (iv) Any final and executory judgment by a domestic or foreign court or competent jurisdiction (in a civil action), the Securities and Exchange Commission ( "SEC"), or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

(e) **Certain Relationships and Related Transactions**

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

**23.1 Rentals**

The Group has an operating lease agreement with Udenna Corporation, the ultimate parent Company. Total rent expense incurred in the years 2008, 2009, and 2010 is P 4.8 million, P6.1 million, and 5.6 million, respectively and is presented as part of Rent expense in the profit or loss.

### 23.2 Due from Related Parties

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

The breakdown of due from related parties as of December 31, 2009 and December 31, 2010 are as follows:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
<b>Due to Parent Company</b>				
Balance at beginning of year	P	-	P	2,937,730
Additions		-		
Collections		-		(2,937,730)
	<hr/>			
Balance, end	P	-	P	-0-
	<hr/>			
<b>Due to Related Parties</b>				
Balance at beginning of year	P	14,421,693	P	13,302,975
Additions		328,802		1,118,712
Collections				( - )
	<hr/>			
Balance, end	P	14,750,495	P	14,421,693
	<hr/>			
<b>TOTAL Due to Related Parties</b>				
Balance at beginning of year	P	14,421,693	P	16,240,705
Additions		328,802		1,118,712
Collections				(2,937,730)
	<hr/>			
Balance, End	P	14,750,495	P	14,421,693
	<hr/>			

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



### **23.3 Key Management Compensations**

The compensations of key management personnel are broken down as follows:

	<b>2009</b>	<b>2010</b>
Salaries	19,699,625	25,137,801
Honoraria and Allowances	1,647,059	1,997,059
13th Month and Bonuses	2,761,963	3,086,174
SSS, PHIC, HDMF and Others	181,325	216,975
	<b>24,289,972</b>	<b>30,438,009</b>

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

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

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

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

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

### Summary of Compensation Table

Compensation of Executive Officers and Directors (in thousand Pesos)				
Name	Principal Position	Salaries (in ₱)	Bonuses / 13 <sup>th</sup> Month / Other Income (in ₱)	Total (in ₱)
<u>Domingo T. Uy</u>	<u>Chairman</u>			
<u>Dennis A. Uy</u>	<u>President and Chief Executive Officer</u>			
<u>Romeo B. De Guzman</u>	<u>Chief Operating Officer</u>			
<u>Joseph John L. Ong</u>	<u>Chief Finance Officer</u>			
<u>Edgardo A. Alerta</u>	<u>Assistant Vice President for Sales in Mindanao</u>			
<u>Alberto D. Alcid</u>	<u>Assistant Vice President for Lubes and Chemicals</u>			
<u>Jose Manuel R. Quimson</u>	<u>Vice President, GM-BIPC</u>			
<u>Alan Raymond T. Zorrilla</u>	<u>Asst. Vice President-Corporate Affairs and OIC Human Resource</u>			
<u>Alejandro U. Suan</u>	<u>Manager of the Davao Depot Operations and Logistics</u>			
<u>Socorro T. Ermac-Cabreros</u>	<u>Corporate Secretary and Director of Corporate Legal</u>			
<u>Chryss Alfonsus V. Damuy</u>	<u>AVP Finance &amp; Comptroller</u>			
<u>Rebecca Pilar C. Caterio</u>	<u>AVP for Credit and Collection</u>			
<u>Carlito V. Cruz</u>	<u>Assistant Vice President for Luzon Commercial Sales</u>			
<u>Rey A. Phala</u>	<u>Credit and Collection Manager</u>			
<u>Gigi Q. Fuensalida</u>	<u>Asst. Corporate Secretary</u>			
<u>John Henry Yap</u>	<u>Supply Manager</u>			
<b>Total 2010</b>				<b>₱ 30,438</b>
<b>Total 2009</b>				<b>₱ 24,290</b>
<b>Total 2008</b>				<b>₱ 21,828</b>
<b>Estimates in 2011</b>				<b>₱ 35,000</b>

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

1. Specification of job title, commencement date of employment, work assignment and possible need for reassignment of work or location as the need may arise;
2. A probation period of six months probationary period from commencement of employment. If the job performance is found to be satisfactory, employment shall be converted to regular basis.
3. Salary & Benefits: specifies that the executive shall receive his monthly salary and a guaranteed 13<sup>th</sup> month pay less the necessary government deductions allowed by law such as but not limited to SSS premium, Philhealth, Pag-IBIG contributions. The same section likewise provides that the executive's salary shall be subject to annual review which shall take into consideration his performance and the achievement of a mutually-agreed goals.
4. Exclusivity: The employment contract provides that the executive shall render exclusive service to the Company and the prohibition to work with other companies regardless of whether such work is done outside office hours, without the consent of the Company.
5. Confidentiality: The executive/employee is duty bound to keep all information, materials and records which he or she may access in the course of his/her employment with the Company are confidential in nature and he or she may not disclose or reproduce the same without the consent of the Company.
6. Professional Conduct: The executive concerned is expected to comply with all the policies and procedures which the Company may issue from time to time. It is specifically prohibited to accept any or all kinds of gifts from suppliers and customers without the consent of the Company

## **Compensation Committee**

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

The following are the members of the Compensation Committee:

Dennis A. Uy	Chairman
Domingo T. Uy	Member
Monico Jacob (Independent Director)	Member
Joseph John L. Ong	Member

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

The Company's Employee's Stock Options Plan (ESOP) has not yet been implemented and the terms and conditions of which is still being finalized by management.

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

The financial statements of the Company were audited by Punongbayan & Araullo for the years ended December 31, 2008, 2009 and 2010. Said external auditor has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and the Professional Regulation Commission.

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

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

Punongbayan & Araullo was first appointed external auditor of the Company in 2006. The Company is compliant with SRC Rule 68, paragraph 3(b)(IV) (Rotation of External Auditors). The certifying partner for the examination of the Company's financial statements for the year/s 2010 is Mr. Ramilito L. Nañola

### Audit Fees

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

#### **Audit and Related Fees**

		Amount in Thousands Php		
Particulars	Nature	2008	2009	2010
Punongbayan and Araullo	Audit of FS for the year 2007 - Parent and Subsidiaries	725.0		
Punongbayan and Araullo	Audit of FS for the year 2008 - Parent and Subsidiaries		1,276	
Sycip, Gorres and Velayo	Audit of FS for the year 2008- Subsidiary	442		
Punongbayan and Araullo	Audit of FS for the year 2009 - Parent and Subsidiaries			2,098
<b>Sub-total</b>		<b>1,147</b>	<b>1,276</b>	<b>2,098</b>
<b>Tax Advisory Services</b>				
Sycip, Gorres and Velayo	Tax Consultancy	107.5	116.5	88
<b>Sub-total</b>		<b>107.5</b>	<b>116.5</b>	<b>88</b>
<b>All Other Fees</b>				
Entia Accounting Office	Professional Fee for BOI Registration of Depot Facilities		96.4	211.8
<b>Sub-total</b>			<b>96.4</b>	<b>211.8</b>
<b>GRAND TOTAL</b>		<b>1,254.5</b>	<b>1,488.9</b>	<b>2,397.8</b>

### Audit Committee and Policies

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

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

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

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

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

The appointed external auditors of the Company make a proposal to the Audit Committee as to their fees for the professional services rendered to the company including audit and other related fees. The Audit Committee evaluates the proposal given by the said external auditors and the Audit Committee later on makes a recommendation to the Board of Directors for their approval. Then the Board acts on the recommendation by either approving, disapproving or suggest further revisions to the proposed fees.

### Changes In and Disagreements With Accountants

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

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

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

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

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

Declaration of Stock Dividends and Cash Dividends for the Company's Issued and Outstanding shares.

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

##### **(1) Common Stocks**

On January 31, 2011 the Board of Directors of the Company approved the declaration of thirty per cent (30%) stock dividends and cash dividends in the amount of Ten Centavos (0.10 Php) per share for the year 2011, which shall be issued out from the Company's unrestricted retained earnings. Record date and Payment date are to be determined and announced later. The stock dividend declaration shall increase the paid-up capital of the Company. The declaration of stock dividends of the Company shall be submitted to the stockholders at the Annual Meeting for their approval.

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

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

For 2010, the Company declared and paid the following dividends to all stockholders of record as of September 23, 2010: 40% stock dividends amounting to One Hundred Six Million One Hundred Twenty Four Thousand Six Hundred Seventy Pesos (₱106,124,670.00), more or less,.

(2) Preferred Shares

On March 6, 2010, the SEC approved the reclassification of 50,000,000 common shares of the Company to preferred shares at par value of ₱ 1.00 per share with the following features:

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

As of date, the Company's Preferred Shares totals Five Million (5,000,000) with a par value of ₱1.00.

On January 31, 2011, the Board of Directors of the Company approved the declaration of cash dividend for the preferred shares at the rate of 11.5% per annum and the payment of the said cash dividend on March 21, 2011 to all preferred shares subscribers., which shall be issued out from the Company's unrestricted retained earnings. Record date and Payment date are to be determined and announced later.

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



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

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

**Item 11. Financial and Other Information**

The consolidated audited financial statement of the Company as of December 31, 2010 is attached herein as **Annex C**. The Consolidated Management Report is attached herein as **Annex B**.

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

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

**Item 13. Acquisition or Disposition of Property****I. Acquisition of Subic Petroleum Trading and Transport Phils, Inc.****A. General character and location of the Property**

Subic Petroleum Trading and Transport Phils, Inc. ("SPTT") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission on 20 February 2007. It holds its principal office in Subic Bay Freeport Zone in Zambales, Philippine, with office address at Unit 113/115 Alpha Building, Subic International Hotel, Subic Bay Freeport Zone and telephone number 047-252-8049.

SPTT is engaged in the business of buying and selling, supply and distribution, importation and exportation, storage and delivery of all types of petroleum and/or petroleum-based fuels for industrial, marine, aviation and automotive use, whether wholesale or retail. It has an authorized capital stock of Philippine Pesos: One Million (Php1,000,000.00), divided into ten thousand (10,000) common shares of stocks, with a par value of One Hundred Peso (Php100.00) per share, of which Philippine Pesos: Two Hundred Fifty Thousand (Php250,000.00) have been subscribed and Philippine Pesos: Two Hundred Thousand (Php200,000.00) fully paid by the following stockholders:

Name	Subscription (Php)	Paid-Up (Php)
Global International (Subic) Phils., Corp.	249,600.00	199,600.00
Salvador C. Medialdea	100.00	100.00
Renato Q. Bello	100.00	100.00
Ma. Rosario C.Z. Nava	100.00	100.00
Ma. Concepcion L. Regalado	100.00	100.00
Total	250,000.00	200,000.00

Global International (Subic) Phils., Corp., Salvador C. Medialdea, Renato Q. Bello, Ma. Rosario C.Z. Nava, and Ma. Concepcion L. Regalado shall hereinafter be referred to as the "Sellers".

SPTT is duly registered with Subic Bay Metropolitan Authority ("SBMA") and was issued the Certificate of Registration and Tax Exemption on 01 June 2010, which is effective until 31 May 2011 and renewable by SPTT. It is classified as a Subic Bay Freeport Enterprise for the purpose of and with permit to operate the business of engaging in the business of importation, warehousing, transshipment, export, distribution of liquor, wines and spirits, tobacco and cigarettes and general merchandise and commodities such as but not limited to groceries, canned goods and pre-paid cards; convenience store for selling and distribution of gasoline and other petroleum products and other liberalized items. SPTT is entitled to tax and duty free importation of raw materials, capital equipment and household and personal items for use within the Freeport Zone, among others.

As of December 31, 2008, SPTT's total assets amounted to Twenty Two Million Three Hundred Sixty Four Thousand Six Hundred Nineteen Pesos (Php22,364,619.00) and total liabilities amounted to Twenty Nine Million Six Hundred Forty Two Thousand Nine Hundred Fifty-Five Pesos (Php29,642,955.00) leaving a negative equity value of Two Million Two Hundred Seventy-Eight Thousand Three Hundred Thirty Six Pesos (Php2,278,336.00).

As of December 31, 2009, SPTT's total assets amounted to Two Million Eight Hundred Seven Thousand One Hundred Forty Six Pesos (Php2,807,146.00) and total liabilities amounted to Five Million Two Hundred Eighty Three Thousand Two Hundred Forty Eight Pesos (Php5,283,248.00) leaving a negative equity value of Two Million Four Hundred Seventy-Five Thousand Four Hundred Seventy-Eight Pesos (Php2,475,478.00).<sup>1</sup>

As of December 31, 2010, SPTT's total assets amounted to 2,697,110 and total liabilities amounted to 6,005,606, leaving a negative equity value of 3,308,496, based on the unaudited figures of SPTT.

B. Nature and amount of consideration to be paid or received by the Company

The parties are still in the negotiation stage with respect to the specific terms and conditions of the sale, including the final amount of consideration for the acquisition of SPTT. The Company is in the process of conducting due diligence on SPTT especially on the validity and effectivity of its existing permits and licenses. As part of its due diligence, the Company is also assessing the most reasonable offer for the purchase of SPTT and comparing the acquisition cost with the capitalization and other costs required if the Company will simply form and incorporate a new corporation and secure all the necessary permits and licenses from the SBMA for the conduct of business in the Free port Zone.

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<sup>1</sup> At the time the Company conducted its legal audit on SPTT, the audited figures available were for 2008 and 2009.

C. Name and address of the transferors and the nature of any material relationship

<b>Name of Transferors</b>	<b>Address</b>
Global International (Subic) Phils., Corp.	Lot 62-A, Innovative Street, Subic Bay Industrial Park, Phase I, Subic Bay Freeport Zone, Zambales
Salvador C. Medialdea	6 Romulo Street, Pacific Malayan Village, Muntinlupa City
Renato Q. Bello	12 Manchester Street, Hillsborough Subdivision, Alabang, Muntinlupa City
Ma. Rosario C.Z. Nava	3 Jade Garden Compound, Ortigas Avenue, San Juan, Metro Manila
Ma. Concepcion L. Regalado	9C White Street, Doña Faustina I Village, Tandang Sora, Quezon City

Global International (Subic) Phils., Corp., Salvador C. Medialdea, Renato Q. Bello, Ma. Rosario C.Z. Nava, and Ma. Concepcion L. Regalado are the transferors in the acquisition by the Company of SPTT. They are not subsidiaries or affiliates of the Company or of any of its affiliates. They are also not the directors and/or officers of the Company or any of its affiliates.

(D) Material features of the Transaction

(i) Rationale for the Acquisition of SPTT<sup>2</sup>

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<sup>2</sup> Based on 2008 and 2009 due diligence and appraisal reports, which were based on 2008 and 2009 figures of SPTT.

- A. It will fast-track the Company's expansion in the ecozone, North-West and parts of central Luzon, Bataan, Zambales, Pampanga, Tarlac
  - 1. SPTT is an existing locator in SBMA and has the appropriate trading licenses and duly issued Certificate of Registration and Tax Exemption. If the Company will apply for registration as a new locator, this will be a long process since SBMA Board has yet to be constituted.
  - 2. SPTT as a wholly-owned subsidiary of the Company will lease land for the proposed depot in Subic.
- B. The Company can serve its client, One Subic Power Generation Corp.
- C. The Company can commence international bunkering, i.e. US Navy vessels.
- D. The Company will be able to import its fuel requirements directly to Subic.
- E. The Company will also be able to enjoy the following incentives of the SBMA:
  - 1. Tax and duty free importation
  - 2. Zero rated VAT
  - 3. SBMA locators are only subject to 5% income tax on gross income (net of direct cost).

Other Features of the Proposed Transaction:

(a) **Liability of Sellers.** The Sellers will be liable, jointly and severally, for all judgments and awards against SPTT in connection with any action, filed, pending, or to the best of the Sellers' knowledge, threatened, that may affect SPTT, its Shares or any of its assets, which arose from acts done by the Sellers prior to the signing of the Share Purchase Agreement, and to indemnify and hold the Company-Buyer and/or SPTT free and harmless from any such judgments and awards and all claims in connection therewith; and in the event the Company-Buyer is made and/or held liable therefore pursuant to any judgment, decree, writ, order and the like, to indemnify, reimburse and compensate the Company-Buyer any and all amounts paid or delivered, if any.

(b) **No Change in Employer.** The Parties agree that nothing in their agreement and the transaction contemplated shall amount to or be considered a change in the employer of all employees of SPTT. No employee of SPTT shall be terminated by reason of the sale and purchase of the SPTT Shares, unless such employee voluntarily agrees to such

termination and is paid the corresponding separation pay and benefits under the law and existing SPTT employment policies, if any.

**II. Proposed Joint Venture Between the Company and Chelsea Shipping Corporation for the Formation and Incorporation of a Joint Venture Corporation for the Purpose of Acquiring a Brand New 14,000 DWT tanker Vessel from China**

**A. The name, address and telephone number of the principal executive office**

Chelsea Shipping Corporation (“Chelsea Shipping”) holds its principal office in Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, with telephone number 63 (82) 2358888. It has an executive office located at the 26<sup>th</sup> Floor, Fort Legend Towers, 3<sup>rd</sup> Avenue corner 31<sup>st</sup> Street, Bonifacio Global City, Taguig City, Metro Manila with telephone number 63 4034015.

**B. General Nature of the Business of Chelsea Shipping**

Chelsea Shipping, an affiliate of the Company, is engaged in the limited trade and business of transporting/shipping/hauling of various products/cargoes such as but not limited to petroleum products. It was incorporated on 17 July 2006 and it has an authorized capital stock of Philippine Pesos: Five Hundred Million (Php500,000,000.00), divided into five million (5,000,000) common shares of stocks, with a par value of One Hundred Peso (Php100.00) per share, of which Philippine Pesos: Four Hundred Million (Php400,000,000.00) have been subscribed and Philippine Pesos: Three Hundred Forty Eight Million Five Hundred Ninety Thousand Four Hundred (Php348,590,400.00) have been fully paid by the following stockholders:

Name	Subscription (Php)	Paid-Up (Php)
Udenna Management & Resources Corp.	399,999,500.00	348,589,900.00
Dennis A. Uy	100.00	100.00
Cherylyn C. Uy	100.00	100.00
Jose Manuel R. Quimson	100.00	100.00
Socorro Ermac-Cabreros	100.00	100.00
Ignacia Braga IV	100.00	100.00
TOTAL	400,000,000.00	348,590,400.00

Chelsea Shipping manages a fleet of fourteen (14) vessels to transport petroleum products. It is currently operating more than fifteen (15) ports nationwide from Luzon to Mindanao, namely Bauang, La Union; Sual, Pangasinan; Subic Bay; NPC Malaya-Pililia; Liway, Bataan; Manila; Batangas; Pagbilao, Quezon; Semirara; Dumaguait; Aklan; Iloilo; Dumaguete; Naga, Cebu; Cagayan de Oro; Zamboanga; and, Davao.

C. Features of the Proposed Transaction

1. Brief Summary of the Terms of the Proposed Joint Venture

The proposed transaction is a joint venture between the Company and Chelsea Shipping for the formation and incorporation of a joint venture corporation for the purpose of acquiring a brand new 14,000 DWT tanker vessel from China to service the transport requirements of the Company in the importation of petroleum products. The Joint Venture Company will be named PNX-Chelsea Shipping Corp. ("PCSC").

PCSC will be sixty per cent (60%) owned by the Company and forty per cent (40%) owned by Chelsea Shipping, with a paid-up capital of Two Hundred Fifty Million Pesos (P250,000,000.00).

PCSC will acquire a 14,000 DWT Tanker Vessel from China, which is currently seventy per cent (70%) completed.

Chelsea Shipping, given its four year track record in the oil shipping industry, will provide Ship Management services to PCSC. On the other hand, the Company will enter into a long term agreement with PCSC to protect itself from freight rate fluctuations with the bunker market on the upswing as the world economy improves.

There will be five (5) members of the Board of Directors, two (2) of whom shall be appointed by Chelsea Shipping, the three (3) others shall be appointed by the Company, provided that one (1) of them shall an independent director of the Company.

2. Rationale for the Proposed Joint Venture

At present, the Company already imports about 98% its fuel products from neighboring countries in order to be more competitive in the market. The Company, however, sees the need to further enhance its product distribution efficiency of petroleum products from the supplier's depot to its various depot terminals and sub-depots facilities and further improve the control of product supply by acquiring tanker vessels to minimize and eliminate the potential risk of supply disruptions due to scarcity of tanker vessels.

For this purpose, the Company intends to enter into a joint venture agreement with Chelsea Shipping, which has been operating tanker vessels for more almost four (4) years, thus has the necessary experience and expertise, for the formation and incorporation of a joint venture corporation for the purpose of acquiring a brand new 14,000 DWT tanker vessel from China.

D. Nature and amount of consideration to be paid or received by the Company

PCSC will be sixty per cent (60%) owned by the Company and forty per cent (40%) owned by Chelsea Shipping, with a proposed paid-up capital of Two Hundred Fifty Million Pesos (P250,000,000.00): One Hundred Fifty Million Pesos (P150,000,000.00) will be invested by the Company and One Hundred Million Pesos (P100,000,000.00) by Chelsea Shipping.

**Item 14. Reclassification of Accounts**

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

D. **OTHER MATTERS**

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

1. Approval of the Minutes of the 15 July 2010 Annual Stockholders' Meeting covering the following matters:
  - Approval of the minutes of the 29 May 2009 Annual Stockholder's Meeting;
  - Report of the Chief Finance Officer;
  - Approval of the Annual Report of the President and the Audited Financial Statement for the year ended December 31, 2009
  - Approval confirmation and the ratification of all acts and resolution passed and approved by the Board of Directors, Management and Executive Committee covering the period from June 1, 2009 to May 31, 2010.
  - Approval of Employees Stock Options Plan;
  - Amendment to the Articles of Incorporation: (1) Article II - amending the Secondary Purpose; (2) Article VII - Incorporation increasing the Authorized Capital Stock of the Company from Php400,000,000.00 to Php800,000,000.00, is hereby approved; and Article III Section 1(a) of the By-Laws increasing the composition of the Board of Directors of 7 to 9;
  - Approval of the declaration of 40% stock dividends;
  - Election of the members of the Board of Directors;
  - Appointment of the external auditors and fixing their rates.
2. Annual Report of the President and Chief Executive Officer;
3. Report of the Chief Finance Officer;
4. Approval of the Company's 2010 Annual Report and 2010 Audited Financial Statement.

5. Ratification and Confirmation of all Acts and Resolutions of the Board of Directors as set forth in **Annex A**;
6. Approval of the proposed acquisition of SPTT.
7. Approval of the proposed investment of the Company's funds to form and incorporate a new corporation, of which the Company shall subscribe to majority of the shares and Chelsea Shipping as minority shareholder, for purposes of acquiring and operating a new tanker vessel to boost and support the Company's fuel importation, depot expansion and the corresponding increase in fuel capacity of its depot terminals;
8. Approval of the declaration of the thirty (30%) stock dividends;
9. Proposed amendment of By-Laws of the Company;
10. Election of the Members of the Board of Directors;
11. Election of External Auditor.

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

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

**Item 17. Amendment of Charter, Bylaws or Other Documents**

*Amendment of the By-Laws*

At the scheduled Annual Meeting of the Company, the following proposed amendment to the By-Laws of the Company shall be submitted to the stockholders for approval:

- A. Proposal to amend Article II Section 1 of the Company's By-Laws changing the date of Annual/Regular meeting of stockholders from the last Thursday of June to any day in March. **The proposed amended portion of the By-Laws now reads:**



**"Section 1. Annual/Regular Meetings – The annual/regular meetings of stockholders shall be held at the principal office on any day in March of each year."**

x	x	x	x	x	x	x
x	x	x	x'			

The reasons for setting an earlier date for the holding of the annual stockholders' meeting to any day in March are the following: (1) to ensure that all stockholders are apprised as early as possible of the result of the operations and finances of the Company for the previous year as contained in the Audited Financial Statements and Management Report; and (2) corporate transactions for the ensuing year, which require stockholders' approval will be presented to the stockholders within one hundred thirty (135) days after the end of the most recently ended fiscal year.

**Item 18. Other Proposed Action**

The proposed acquisition of SPTT, the proposed investment of the Company's funds to form and incorporate a new corporation for purposes of acquiring and operating a new tanker vessel and the declaration of thirty (30%) stock dividends shall be submitted to the stockholders for their approval.

**Item 19. Voting Procedures**

Under the Corporation Code, the affirmative vote of stockholders representing at least two thirds (2/3) of the outstanding capital stock of the Company shall be necessary for the approval of the proposed investment of the Company's funds to form and incorporate a new corporation for purposes of acquiring and operating a new tanker vessel. The affirmative vote of stockholders representing a majority of the outstanding capital stock of the Company at the Annual Meeting shall be necessary for the proposed acquisition of SPTT and the approval of the amendment to the New By-Laws.

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

Except for the election of directors in which cumulative voting is allowed, stockholders of record are entitled to one (1) vote per share. There is no manner of voting prescribed in the New By-Laws of the Company. Hence, voting may be done by *viva voce*, raising of hands or by balloting.

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

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

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held last July 15, 2010
4. Report of the President and Chief Executive Officer
5. Report of the Chief Finance Officer
6. Approval of the 2010 Audited Financial Statements and 2010 Annual Report
7. Approval of Corporate Actions:
  - a) Proposed acquisition of Subic Petroleum Transport And Trading Philippines, Inc.;
  - b) Proposed investment of the Company's funds to form and incorporate a new corporation, of which the Company shall subscribe to majority of the shares and Chelsea Shipping as minority shareholder, for purposes of acquiring and operating a new tanker vessel to boost and support the Company's fuel importation, depot expansion and the corresponding increase in fuel capacity of its depot terminals
  - c) Proposed Amendments of the Article II Section 1 of the By-Laws of the Company, to wit;

**"Section 1. Annual/Regular Meetings – The annual/regular meetings of stockholders shall be held at the principal office on any day in March of each year."**

8. Declaration of thirty (30%) stock dividend
9. Ratification and Confirmation of all Acts and Resolutions of the Board and Management executed in the normal course of business covering the period of June 1, 2010 until January 31, 2011
10. Election of the Members of the Board of Directors
11. Appointment of External Auditor
12. Other Matters
13. Adjournment

## SIGNATURE

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

This report is signed in Davao City on **16 FEBRUARY 2010.**

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



**SOCORRO T. ERMAC CABREROS**  
Corporate Secretary

## ANNEX “A”

<b>ACTS AND RESOLUTIONS OF THE BOARD OF DIRECTORS June 1, 2010 to January 31, 2011</b>	
<b>June 3, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing the Corporation to open and maintain deposit accounts and /or trust accounts with the RCBC Savings Bank, and that all checks, drafts, bills of exchange, acceptances, orders or other instruments for the withdrawal of funds from said account.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to (1) apply for a reinstatement of Philippine Export-Import Credit Agency (PhilEXIM) guarantee; (2) renew and increase its line in the amount of Five Hundred Million Pesos only and (3) allow assignment of receivables;</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to borrow money, arrange and negotiate with CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION for credit facilities, to secure trust receipts, to obtain other credit facilities, to enter into and assume any other financial undertaking with the Bank, with or without security in the aggregate amount of ONE HUNDRED THIRTY FIVE MILLION (Php135,000,000.00)</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the corporation to purchase a motor vehicle and apply, negotiate and obtain credit facilities with RCBC SAVINGS BANK or from a car dealership for the financing of the motor vehicle to be purchased.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to apply with the Manila Electric Company (MERALCO) for three-phase electrical connection to our Central Warehouse No. 2 (CW2) located in 720 A. GEN. Luis St., Caybiga, Caloocan City.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the corporation to apply for the issuance of BDO Corporate Card (including purchasing, housecard, and distribution) to be issued in the name of the corporation’s senior personnel</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to negotiate , enter into, secure, obtain, incur and /or contract for any and all types of loans, credit accommodations or facilities, or any treasury facilities/accommodations such as but limited to foreign exchange facilities, or import and export transaction such as but not limited to general export / import transaction like presentation and negotiation of export documents, opening of letters of credit, currency interest rate swaps, derivative products, term deposits, money market/trust placements, purchase/sale of debt papers and negotiable instruments with THE HONGKONG AND SHANDHAI BANKING CORPORATION LIMITED.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to sell the vehicle specifically described as follows;  Make/Series : Isuzu Fuso  Body Type : Aluminum Van  Denomination : Truck  Year/Model : 2002  Plate No. : XDG-857 </li> </ul>
<b>June 4, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing the Corporation’s AVP for Retail Fuel Sales-Luzon, MR. JOSE VICTOR L. CRUZ to negotiate, conclude and enter into dealership and retail outlet contracts relative to the operation of the Corporation in Luzon, for an on behalf of the Corporation.</li> </ul>

<b>June 4, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing the Corporation to enter into Deeds of Assignment with Great Polaris Textile Mills, Inc., Mighty Textile International Corp., Wintex Textiles Industries, Inc., Divine Textle, Fox Valley Knitting Mills Inc., Silvertex Weaving Corp., Primeknit Mfg. Corp., And Uni-Glory's Knitting Corp. for the assignment of their Tax Credit Certificates issued and to be issued by the Department of Finance in their respective names for the period of three (3) months, from July 2010 to September 2010, to the Corporation.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to enter into Deeds of Assignment with Uni-Glorys Knitting Corp. for the assignment of Tax Credit Certificate No. I-009692-D, I-009692-T, I-009693-D, I-009693-T, I-009894-D and I-009894-T issued by the Department of Finance in its name to the Corporation.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to enter into Deeds of Assignment with Primeknit Mfg., Corporation for the assignment of Tax Credit Certificate Nos. I-009735-D, I-009735-T, I-009806-D, I-009806-T, I-009827-D and I-009827-T issued by the Department of Finance in its name to the Corporation</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to enter into Deeds of Assignment with Fox Valley Knitting Mills Inc. for the assignment of Tax Credit Certificate No. I-009895-D, I-009895-T, I-009896-D, I-009896-T, I-009897-D and I-009897-T issued by the Department of Finance in its name to the Corporation.</li> </ul>
<b>July 5, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing the Corporation to enter into Deeds of Assignment with Silvertex Weaving Corporation for the assignment of Tax Credit Certificate No. I-009901-D, I-009901-T, I-009902-D, I-009902-T, I-009903-D, I-009903-T, I-009904-D, I-009904-T, I-009905-D, I-009905-T, I-009906-D, I-009906-T, I-009925-D and I-009925-T issued by the Department of Finance in its name to the Corporation.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to confirm that sometime in November 2009 had entered into a contract with Chelsea Shipping Corporation for the transport of the former's products, in particular, MOGAS or unleaded gasoline, ('Cargo') using the latter's vessel;</li> </ul>
<b>August 2, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing the Corporation to borrow or obtain credit accommodation from METROPOLITAN BANK &amp; TRUST COMPANY to finance the purchase of Toyota Innova E. Diesel Automatic Trans amounted of Php958,140.00</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the corporation to participate in the Bidding Purchase of Diesel and Unleaded Gasoline of the City Government of Cebu.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to request for the release of LADISLAWA GARDEN VILLAGE CAR STICKER for the service vehicle of the Company specifically described as follows; A. Make/Series/Type : Ford Conoline Wagon Engine No. : ADA20589</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to publish a notice of Termination/Cessation of Employment with the Philippine Daily Inquirer.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to negotiate, finalize and execute credit/lease/loan facilities for the present year with JAPAN-PNB LEASING &amp; FINANCE CORPORATION in such amount as maybe determined by the Corporation's Officers authorized and to secure payment of said credit/lease/loan facilities with the assets/properties of the Corporation.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to open and maintain current, savings and/or time deposit account/s with Banco de Oro Universal Bank and/or avail itself of the products and services of the Bank's Transaction Banking Group (TBG).</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to borrow up to ONE HUNDRED FIFTY</li> </ul>

	MILLION PESOS from third-party investors through the issuance of its own Promissory notes with RCBC Capital Corporation acting as its Broker.
	<ul style="list-style-type: none"> <li>Authorizing the corporation to avail of additional loan/credit facilities from Malayan Bank, Inc. up to ONE HUNDRED MILLION PESOS or its foreign currency equivalent.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to request from the Bureau of Internal Revenue (BIR) the Corporation's Certified true copies of Income Tax Returns &amp; VAT Returns for the years 2007-2008 &amp; 2009.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to get the Special plate number of the following described motor vehicle from the LTO Davao Regional Office <ul style="list-style-type: none"> <li>A. Model/Make/Type : 2010 Ford Wagon</li> <li>Plate No. : PNX 55</li> <li>Engine No. : ADA20589</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to negotiate, finalize and execute the sale to JAPAN-PNB LEASING &amp; FINANCE CORPORATION.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to apply for and/or obtain with the Bank for its accreditation under the SALARY LOAN PROGRAM of the Bank in the aggregate principal amount of TEN MILLION PESOS ONLY (₱10,000,000.00), Philippine Currency</li> </ul>
<b>September 3, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing DAU &amp; DTU to sign, execute and deliver any and all document including but not limited to loan application, disclosure statement, purpose sheets, application for Letter credits, Promissory notes, Real Estate Mortgage, Chattel Mortgage, Loan Agreements, Drafts, Surety Agreements, Trust Receipt, Pledges, Assignments and the like, including the renewals, extensions, roll-overs, and/or amendments thereof.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to apply for, secure and obtain the necessary business permits, licenses, authorizations and consents from the various local government units and other appropriate government agencies and/or duly constituted authorities, which may be required or necessary for the operation of the Corporation's terminal inside Phoenix Petroterminals &amp; Industrial Park in Calaca, Batangas;</li> </ul>
<b>October 4, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing the Corporation to transact and process with the Department of Finance at its Duty Drawback Division.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the corporation to declared 40% stock dividends taken from its 2009 unrestricted retained earnings.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the corporation to open and maintain savings, current accounts, authorized to deposit any of its funds in the RCBC SAVINGS BANK.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to open and maintain current, savings and/or time deposit account/s with Banco de Oro Universal Bank.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the corporation to claim the Special Plate of the the following described motor vehicle at the Land Transportation Office; <ul style="list-style-type: none"> <li>A. Make/Series/Body : Mitshubishi Montero Sport G Wagon</li> <li>Color : Savanna White</li> <li>Year Model : 2010</li> <li>Plate No. : EAA 88</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to transact with the Social Security System in relation to its applications of the claims of benefits and reimbursements of the</li> </ul>

	Company's employees and to claim the proceeds thereof.
	<ul style="list-style-type: none"> <li>Authorizing the corporation to register its new Bulk Storage Depot Project in Cagayan de Oro City with the Board of Investments (BOI) under the Executive Order No. 226.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the corporation to register its new Bulk Storage Depot Project in Bacolod with the Board of Investments (BOI) under the Executive Order No. 226.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the corporation to hereby accepts the Specific and General Terms and Conditions in connection with its application for registration for its new project as Storage and Distribution of Petroleum Products located at Talisayan, Zamboanga City.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to participate in the bidding of Supply and Delivery of Petroleum Products Requirements of the Office of the President for FY 2011, and that if awarded the tender shall enter in a contract with the Office of the President;</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to enter into Deeds of Assignment with Great Polaris Textile Mills, Inc., Mighty Textile International Corp., Wintex Textiles Industries, Inc., Divine Textle, Fox Valley Knitting Mills Inc., Silvertex Weaving Corp., Primeknit Mfg. Corp., And Uni-Glory's Knitting Corp. for the assignment of their Tax Credit Certificates issued and to be issued by the Department of Finance in their respective names for the period of three (3) months, from October 2010 to December 2010, to the Corporation under such terms and conditions as may be in the best interests of the Corporation.</li> </ul>
<b>October 19, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing the Corporation purchase Tax Credit Certificates and apply for and claim from the one stop shop tax credit and Duty Drawback Center of the Department of Finance.</li> </ul>
<b>November 3, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing the Corporation to open and maintain Investment Management Account (IMA) with BDO Universal Bank Inc.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to negotiate, enter into a leasing arrangement/lease from BPI Leasing Corporation, a domestic Corporation.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to transact and obtain from any government offices building permits, sanitary permits, ECC/CNC and all other pertinent documents to comply with the government regulations relative to the construction of Depots in Visayas and Mindanao Regions;</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to transact with the securities and exchange Commission (SEC) relative to its application for Merger with Petroterminals Philippines Corp. and Petrologistix Services Corp.</li> </ul>
<b>December 3, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing the corporation to approve and authorize the declaration of cash dividend for its preferred shares computed at rate of 11.5% per annum pursuant to the subscription Agreement executed last September 21, 2010.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the corporation to approve: <ul style="list-style-type: none"> <li>a) Appointment of 3 members to the Board of Directors namely: <ul style="list-style-type: none"> <li>Com. Diane Pardo Aguilar – SSS nominee to replace Fe Tibayan Palileo</li> <li>Jose Manuel R. Quimson</li> <li>Socorro Ermac Cabrerros</li> </ul> </li> <li>b) Follow-On Offering on March 28, 2010 <ul style="list-style-type: none"> <li>With authority given to management to set the price</li> <li>Engagement of Services of ATR Kim Eng as Issue Manager and Financial Adviser</li> </ul> </li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>Authorizing the Corporation to negotiate and obtain with <b>LAND BANK OF THE PHILIPPINES (LBP)</b> for a renewal with increase of its DP/DA/OA/LC/TR Line in the amount of <b>ONE BILLION PESOS (P1,000,000,000.00)</b></li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to request the release of the original copies of the Official Receipt (OR) and Certificate of Registration (CR) of the following described service vehicle of the company from Banco De Oro Unibank (BDO) CLG Secured Loan Operations, C.M. Recto Ave., Davao City, as the said vehicle have been duly paid thereof and we need the same for the renewal of its registration with the Land Transportation Office, viz  Make/Series/Type : Ford Ranger 4/2 Pick-up  Plate No. : LGB770  O.R. No. : 5479383-0 dated 02/03/07  C.R. No. : 465038486 dated 02/03/07</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to file its Answer or Explanation, Position Paper, motions, and/or such other pleadings as the Corporation's legal counsel may deem appropriate in the case entitled 'In the Matter of the Request for Conciliation Filed by Ira Reginald M. Flores, Requesting Party, Phoenix Petroleum Philippines, Inc. Atty. Gigi Fuensalida, Respondent' that is pending before the Department of Labor and Employment, National Capital Region, Muntaparlas Field Office, Single-Entry Approach (SENA) docketed as SEAD-NCR-MTPLFO-43-11-10.</li> </ul>
<b>December 17, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing the Corporation to open and maintain deposit account/s and/or placement/s with CHINA BANKING CORPORATION, under such terms and condition, as may be mutually agreed upon, where its cash funds, any credit remittances or checks issued in its favor, with or without endorsement, maybe deposited.</li> </ul>
<b>December 23, 2010</b>	<ul style="list-style-type: none"> <li>Authorizing the Corporation to ratify its adoption of a fit and proper rule for the selection of a corporate directors and officers in accordance with the Securities Regulation Code and the Code of Corporate Governance issued by the Securities and Exchange Commission.</li> </ul>
<b>Jan. 3, 2011</b>	<ul style="list-style-type: none"> <li>Authorizing the Corporation to renew the Corporation's Business permit for the year 2011 and the succeeding years thereafter with the local government unit where the Corporation is operating its office and/or branches.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to (1) obtain/renew a Philippine Export-Import Credit Agency (PhilEXIM) guarantee; (2) obtain a short-term working capital with United Coconut Planters Bank or apply with any bank acceptable to PhilEXIM for a line in the amount of Five Hundred Million Pesos Only (PHP500,000,000.00); and (3) allow assignment of receivables;</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to transact with BDO LEASING AND FINANCE, INC., BANCO DE ORO UNIBANK, INC. or any of its branches, its subsidiaries and affiliates for the obtainment of loan facilities and availment of banking products and services;</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the corporation to negotiate and contract for a term loan with the Development Bank of the Philippines (DBP) in the amount of <b>PESOS: EIGHT HUNDRED SIXTY MILLION (P 860,000,000.00)</b> to finance various capital expenditures.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to negotiate and contract for the renewal of its Letters of Credit (LC) / Trust Receipt (TR) line with increase from P</li> </ul>



	1,000,000,000.00 to P 2,000,000,000.00 and renewal of its Domestic Bills Purchased Line of P 80,000,000.00 with the Development Bank of the Philippines (DBP).
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to purchase Tax Credit Certificates and apply for and claim from the One Stop Shop Tax Credit and Duty Drawback Center of the Department of Finance, and for this purpose to enter into a Memorandum of Agreement and/or a Deed of Assignment and such other agreements, contracts, papers and documents for the purchase of the said Tax Credit Certificates under such terms and conditions as may be in the best interests of the Corporation.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to lease from Limketkai Sons, Inc. a 73.98 sq. m. office space at Gateway Tower I Suite 01 &amp; 01 (8<sup>th</sup> Level) for the company's business operation.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to collect, receive and pick-up checks from D.M. Consunji, Inc. and other pertinent documents in favour of our company;</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to participate in the bidding of Supply and Delivery of Oil Based Fuel for PSALM Corporation for CY 2011, and that if awarded the tender, shall enter in a contract with the Office of the President</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to enroll in the Electronic Filing and Payment System of the Bureau of Internal Revenue-RDO 44, Taguig City for the electronic filing and payment under its <u>Integrated Tax System</u>.</li> </ul>
	<ul style="list-style-type: none"> <li>Authorizing the Corporation to claim the plate number RFJ322 of its Isuzu's Tractor Head from the Land Transportation Office ('LTO') located in East Ave., Quezon City.</li> </ul>
Jan. 28, 2011	<ul style="list-style-type: none"> <li>Authorizing the Corporation on the following acts:               <ol style="list-style-type: none"> <li>Joint Venture Agreement with Chelsea Shipping Corp. for the acquisition of one vessel, creation of a new corporation for the JV with PPPI as majority shareholder for purposes of boosting the supply network of PPPI and authorization of Romeo B. de Guzman to negotiate and determine the terms and conditions and execute the JV documents for and in behalf of PPPI.</li> <li>Acquisition of Subic Petroleum Trading and Transport Philippines, Inc., a Subic-based Corporation, engaged in the business of buying and selling petroleum products.</li> <li>The conduct of the Annual Stockholders' Meeting on March 11, 2011, Friday in Davao City.</li> <li>Amendment of PPPI By-laws particularly the date for the Annual Stockholders meeting from Last Thursday of June to <b>Any day in March</b>.</li> </ol> </li> </ul>

**PART I – BUSINESS AND GENERAL INFORMATION****1. Business Description**

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the Parent Company) was incorporated in the Philippines on May 8, 2002 and 54% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines. On August 7, 2006, the Philippine Securities and Exchange Commission approved the Amended Articles of Incorporation of the Company changing its name from Davao Oil Terminal Services Corp. to "P-H-O-E-N-I-X Petroleum Philippines, Inc."

The Company is registered with the Board of Investments (BOI) effective November 16, 2005 as a New Industry Participant with New Investment in storage, marketing and distribution of petroleum products under Republic Act (RA) 8479 (Downstream Oil Industry Deregulation Act of 1998). Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investment Code of 1987. Under its registration, the Company is also entitled to certain tax and non-tax incentives to include Income Tax Holiday (ITH) for five (5) years from November 16, 2005. In February 26, 2010, the Board of Investments issued Certificate of Registration of the Calaca, Batangas storage terminal still under RA 8479, which gives the Parent Company Income Tax Holiday of five (5) years from February 2010 for the said storage, marketing and distribution activity.

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

The Company is engaged in the business of trading refined petroleum products, lubricants and other chemical products on a wholesale basis, operation of oil depots and storage facilities, and allied services mainly in Southern Philippines. Its products and services are distributed and marketed under the "PHOENIX Fuels Life<sup>TM</sup>" trademark.

Its operations are divided between Trading, Terminating and Hauling Services. Under Trading, the Company offers its refined petroleum products and lubricants to retailers and commercial/industrial customers. The Parent Company has a total of 161 service stations, where thirty three (33) service stations is in Luzon, five (5) in Visayas and one hundred twenty three (123) in Mindanao operating as of December 31, 2010 and there are a total of 38 service stations under different stages of construction as of December 31, 2010. The retail service stations are classified as Company-Owned,

Company-Dealer-Operated (CODO) or Dealer-Owned, Dealer-Operated (DODO).

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

#### **Subsidiaries:**

At present, PPPI has six (6) subsidiaries, namely:

- **Petroterminals Philippines Corp.** ("Petroterminals") was established last March 26, 2007 to conduct and carry on the business of manufacturing, processing, trading and delivery of petroleum and other chemical products and to engage in the business of operating oil depots and storage facilities. In November 2, 2010, the Securities and Exchange Commission approved the merger of Petroterminals to the Parent Company.
- **Petrologistix Services Corporation** ("Petrologistix") is a logistics and trucking company established on January 31, 2007. Its main business purpose is the delivery, hauling and transport of various petroleum products and other logistical services. Currently, Petrologistix serves PTT Philippines Corp. in Northern Luzon and the logistics needs of the Company in its Luzon operations. In November 2, 2010, the Securities and Exchange Commission approved the merger of Petroterminals to the Parent Company.
- **P-h-o-e-n-i-x Global Mercantile, Inc.** ("PGMI") was incorporated on July 31, 2006. It is the exclusive Philippine Distributor of Emarat Lubricants, a major petroleum company based in the United Arab Emirates. In October 2007, the commercial operation on the importation and distribution of lubricants was transferred to PPPI.
- **PFL Petroleum Management Inc.** . ("PFL or PPMI") was incorporated last January 31, 2007 and is currently engaged in the management the Parent's Company retail service stations used as training sites and stations of which the Company is prospecting dealers.
- **P-H-O-E-N-I-X Philippines Foundation, Inc.** ("Phoenix Foundation") was organized on July 3, 2007 primarily for the purposes of supporting and participating in social and charitable projects, activities geared toward the development, protection, alleviation, education or empowerment of the needy and less fortunate members of society. Phoenix Foundation likewise supports and participates in activities which are aimed toward the promotion of sports and takes active role

in the protection, conservation and preservation of our natural environment. Phoenix Foundation is the Corporate Social Responsibility arm of the Company

- **Bacnotan Industrial Park Corporation (BIPC)** is engaged in real estate development. BIPC was registered with SEC on March 7, 1996. BIPC is also registered with the Housing and Land Use Regulatory Board (HLURB) under Executive Order No. 648 and was granted a license to sell parcels of land on March 31, 2000 covering 25.4 hectares for Phase 1 of BIPC's project, the Phoenix Petroleum Industrial Park (Park), formerly Batangas Union Industrial Park, located at Km. 117, National Highway, Calaca, Batangas.

## **Operating Highlights**

### **Marketing**

#### **Spreading our wings**

A bird spreads its wings broadly to fly high and far and reach its destination. Like birds looking for new territories, we continuously expand our network to reach more customers.

Altogether, a bigger network and increased efficiency yielded a 127% increase in fuel sales volume. Commercial accounts make up 58% of our revenue, with retail at 30% and airline at 12%.

Our number of retail stations increased from 120 in 2009 to 161 at the end of 2010. Of these, 123 are located in Mindanao, 5 in Visayas, and 33 in Luzon. Approximately 30% are company-owned and 70% dealer-owned. Aside from opening more stations, we worked on improving volume efficiency per station. As a result, retail volume increased 45%.

Sales to commercial accounts, primarily to the airline, shipping, fishing, mining, power and transportation sectors, registered a 184% growth during the year. In Mindanao, we formed a long-term supply agreement with Davao Reyer Transport Services Corp., a leading bus line in Davao region, and the DTI Overland Transport Corp.

Jet A1 volume increased 277% in 2010. We renewed our supply agreement with Cebu Pacific, the country's largest airline, as their exclusive logistics partner in Mindanao. In September we began into-plane service for Cebu Pacific's regional flights from Mactan, Cebu.

We continue to develop our relationship with our dealers. In Luzon we organized the first Dealers' Convention, while in Vis-Min we held quarterly dealers dialogue. Our annual Business Partners Appreciation Night in 2010

was the grandest yet, highlighting our most outstanding dealers, distributors, and commercial partners.

To improve operational excellence and customer service, we provide regular trainings to sales team and forecourt personnel, as well as a site operating standards manual.

Our Lubricants business increased 44% this year with the increasing market reach and acceptance. It ended 2010 with 8 new territory distributors for high street and industrial in Luzon, Visayas, and Mindanao. Our top sellers are our Zoelo Heavy Duty Diesel Engine Oils, Cyclomax Motorcycle Oils, and industrial oils.

Our Lubes team will further improve distribution capabilities of our existing network, increase reach of mapped stores, and increase product distribution at the store level, to grow the business in 2011.

## **DEPOT AND LOGISTICS OPERATIONS**

### **Steady in flight**

A bird uses its tail to keep itself steady in flight. Similarly, the back-end of our operations ensures that our products arrive to clients and customers on time and without loss of quality.

This year, around 90% of our supply was imported from the region, making our cost more competitive in the market. Supply is transported by our affiliate Chelsea Shipping Corporation from our suppliers to our terminals. We will continue to work on providing timely supply of fuel to our depots and retail stations.

To support the growing retail and commercial network, we expanded our total depot capacity from 68.5 million liters in 2009 to 95.6 million liters in 2010. Our Zamboanga depot was inaugurated on April and we began using a floating storage in Cebu. These add to our existing sites in Davao City, Batangas, Aklan, Surigao del Sur, and Hijo, Davao del Norte. We are adding capacities to our depots in Davao City and Calaca, Batangas, which are scheduled to finish on 2011. We have started construction of our depot in Cagayan de Oro and Misamis Oriental, and plan to build in Bacolod and Subic which also expected to be completed in 2011.

Our depots in Davao City and Batangas are ISO 9001-2000 and ISO 9001-2008 certified respectively. We follow standards and have improved efficiency on loading and discharging of products. This has resulted to zero misload, zero lost time accident, and zero contamination incident. To minimize product loss, we conduct regular calibration and checks of our equipment, meters, and accessories.

We ensure that our products are delivered 24 hours after receipt of approved order, 24/7. Our own fleet of trucks delivers supply to our network. Our fleet has increased from 37 trucks to 41 this year, and volume capacity from 747

KL a year ago to 857 KL. Of this capacity, 57% is for Jet A1 fuel, while the rest is for commercial accounts. We continue to maximize utilization of tankers and provide regular tank trucks maintenance. In Luzon, we aim to expand our fleet and reduce use of third-party haulers.

Safety is a priority in our depot operations. We emphasize this by acquiring required equipment, providing staff training, having an emergency response plan and organization, following regulations, and conducting regular site inspections. We train our staff on pollution control, fire prevention, motor vehicle safety, and disaster preparedness and recovery.

### **Phoenix Petroterminal and Industrial Park**

The Phoenix Petroterminal and Industrial Park (PPIP) was inaugurated on July 2009, four months after we acquired the Bacnotan Industrial Park Corporation, owner and operator of the former Batangas Union Industrial Park.

The Park has a total of 87 hectares. Development and sale is divided into four phases, of which Phase I is ongoing. Of the 43 hectares in Phase I, 69,727 sq. m. are for sale. The rest have been sold. Of these, 38,368 sq. m. were sold to locators in 2010. Revenues from both Park and Port reached P120.6 million this year.

Our port expansion, which began on March, is scheduled to finish on February 2011. We plan more developments to the Park and its operation, as well as improvements to receiving facilities and port services. These will attract additional locators and make us more competitive with other ports and industrial parks.

### **Branding**

The Company continued its brand building efforts through a selective advertising campaign. Branding and advertising activities includes the following:

1. **2010 Cyclomax Performance Run** – A four-day endurance run of a group of motorcycle riders using the Phoenix Cyclomax Titan 4T Motorcycle Oil travelling from Manila to Bicol and back in 4 days. The group accumulated a total of 1500kms including side trips in Sorsogon province amidst intermittent rains along the way. This activity proved the performance of the oil and its results and riders' testimonials used in marketing collaterals.

2. **V-Man Racing Team of Davao** – Phoenix sponsored the most winnable motorcycle racing team in Mindanao, reaping multiple awards in different racing competitions donning and using the Phoenix Colors and Cyclomax and Fuel Brands as they cross one finish line after the other. Suzuki is also a technical sponsor to the V-Man team ensuring the best racing technology available.

3. **PBA On-Tour Sponsorship** – Phoenix renewed its sponsorship contract with the Out-Of-Town games sponsorship of the Philippine Basketball Association for another 3 seasons. Through the PBA, the Phoenix brand was even made known widely through its in-game advertisements and various PBA awards where Phoenix is a co-sponsor.

4. **Lubricants High Street Merchandising** – Part of making Phoenix lubricants available in the market is the full merchandising of outlets in selected areas where our distributors are present. The merchandising campaign continues in 2011 as Phoenix appoints new lubes distributors in other key areas nationwide.

5. **“Raise A Phoenix II”** – the company continued its print ad dealership campaign in VisMin and Luzon where the company continuously seeks out new business partners in its network expansion.

6. **Iron Man Davao Team Triathlon Sponsorship** – Taking pride in the its Davao roots, Phoenix sponsored a group of men and women representing Davao City in last year’s 2010 Iron Man Challenge held at the CamSur Watersports Complex (CWC) in Camarines Sur where the Team Davao carried the Phoenix colors and brought home unique awards of distinctions.

7. **2<sup>nd</sup> Phoenix Golf Open** – the company sponsored the 2<sup>nd</sup> Phoenix Golf Open in Davao as part of its fund-raising for the foundation’s activities which include the “Adopt A School Program” and “Adopt A River Program”. The brand has actively organized and sponsored worthwhile events in support of its CSR activities.

8. **2010 Kadayawan Motocross Competition** – With the Cyclomax brand slowly emerging as a reputable motorcycle oil brand in the market today, its continuous exposure in motorcycling events was made even more visible with the sponsorship of the 2010 Kadayawan Motocross Competition. Phoenix lubricants participation in motoring events are a sure way of gaining brand recognition and creating the right awareness.

9. **“The Chase TV Commercial”** – From its humble beginnings in 2005, the company in 2010 launched its first 30-sec Television Commercial featuring the major brands of Phoenix lubricants. The ad, which was shown during the weekend PBA games on Television has slowly entered mainstream ad placements and will continue to do so in 2011 with a new TV ad featuring a corporate brand campaign.

## **Supply and Operations**

The Company continued to strengthen its supply chain. In July 2009, the Parent Company started importing part of its refined petroleum inventory requirements. It however continued to maintain local sourcing of supply of its refined petroleum products from its existing suppliers, i.e. PTT Philippines Corporation and other domestic wholesalers, relationships with new suppliers were opened. The Company now procures its lubricants and base oil requirements through local suppliers as well as imports from Singapore. In 2011, around 90% of its supply is imported mostly from Singapore and Taiwan through various foreign traders.

In January 11, 2011, the Company has been issued termination letter by the Bureau of Customs (BOC) relating to the Post Entry Audit Group (PEAG) audit for Duties and Taxes on Petroleum Importation from prior years up to June 21, 2010. Therefore clearing the Company for any Duties and Taxes on the aforementioned period.

With the apparent shortage of marine tankers, the Company made a significant step to assure a seamless supply chain. In May 2007, the Company entered into a Contract of Affreightment with Chelsea Shipping Corp. (CSC), an affiliate. Currently, CSC manages a fleet of 15 vessels to transport petroleum products. It owns eight (8) of these oil tankers: then MT Chelsea Cherylyn, M/T Chelsea Denise, M/T Chelsea Enterprise, M/T Chelsea Intrepid, M/T Chelsea Excellence, M/T Chelsea Integrity, M/T Chelsea Passion, and MT Chelsea Cherylyn. The latter is a brand new 6,000 MT HULL CYC – 108 Oil Tanker (with total cost of US \$15 million) which will be delivered in May 2009. CSC also acquired control over Bunkers Manila Inc (BMI) as well as Michael Inc (MI) to further strengthen its position in its industry.

Its major clients are Phoenix Petroleum Philippines Inc., Cebu Pacific Air, PTT Philippines, Marine Fuels, National Power Corporation, Pilipinas Kao, Inc., Filpride Resources, Inc, Ludo Luym, Total Bulk Corporation for Philippine Airlines and Air Philippines.

To provide for its ever-increasing volumes and business activities, the Company completed in 2009 the 1<sup>st</sup> phase of its expansion program in the Davao Depot facilities, increasing its original capacities by more than 100%. In 2010, another additional capacity was built in Davao Depot to further support the Southern Mindanao requirements. In addition, the Company also has expanded its pier facilities in 2009, which will enable the Company to accommodate larger vessels. The Company also added to its fleet of lorry tankers to ensure efficient delivery of the rising volume of its growing number of clientele.

The Parent Company, through Petroterminal Philippines Corp. (PPC), (now merged with the Parent Company) inaugurated its 50.4 million liters terminal facilities in Calaca, Batangas last July 23, 2009. PPC, a wholly owned subsidiary, acquired 35,000 square meters of land in the Batangas Union



Industrial Park (since renamed to Phoenix Petroleum and Industrial Park) which becomes the site of this facility. This will serve as the Company's hub of operations in Southern Luzon. In 2011, the Parent Company expanded further the capacity of the Calaca, Batangas facility to support its growing business.

Further, the Parent Company started construction of its Phivedic, terminal facility. Additional project is awarded to contractors for the construction of its Bacolod depot to commence construction first quarter of 2011.

### **Other Significant Operational Highlights**

In an unceasing effort to improve its operations, the Company embarked and made enhancement into two major efficiency-enhancing programs.

### ***Quality Management Systems***

On February 1, 2008, the Company received its accreditation from Bureau Veritas for ISO 9001: 2000 accreditation. ISO 9000 is a family of standards for quality management systems. The scope of the quality system, intended for its Davao bulk plant and aviation fuel tank truck operations, included "Receiving, Storage and Distribution of Petroleum Fuels". In the last quarter of 2008, audit for ISO process were done and the Company was evaluated to be in compliance. In 2009 audit and recertification, the Parent Company outstandingly passes to the said procedure.

### ***Information Technology***

In November 2008, the Company entered into agreement with Fasttrack Solutions, Inc. to expand its existing system SAP-Business One (SBO) (Systems Applications and Products in Data Processing) capabilities to handle transactions of new Business Units as the Company continues to expand its area of operations. This SAP System was initially rolled out by the Company last July 2007 as an integrated computer system automating its transaction processing from the time products are procured until they are delivered to clients. The system covers procurement management, billing management, inventory management and financial reporting system. In 2009, the Parent Company, through the assistance of Fasttrack also updated its SBO to later version and patch. This system is further enhanced and upgraded to newer patch and higher capacity in 2010 to accommodate the growing requirements of the Company.

The aforementioned enhancement of system include training of key SAP users support personnel on advance SAP application, report design and other useful processes.

Other Information technology updates and initiatives to include:

1. POS Implementation in Retail Stations
2. Security – Installation of CCTV System in Davao and Zamboanga
3. Implementation of Audio and Video Conferencing facility between Davao Head office and Fort Bonifacio, Taguig Corporate Office
4. Voice and Data connectivity for various locations
  - a. Calaca, Batangas - Upgraded to E1
  - b. Zamboanga City
  - c. General Santos City
  - d. Bacolod City
  - e. Cagayan de Oro City
5. Company-wide Software Inventory to ensure compliance with Intellectual Property Rights Policies
6. Network Usage Survey to ensure optimal network utilization SAP
  - a. Crystal Reports Implementation
  - b. PPE Module Enhancement and Deployment
  - c. Cebu, General Santos, Zamboanga real-time online systems connectivity
  - d. Set up of a separate Luzon and Visayas Databases

### **Major Capital Expenditures**

The following major projects were completed and or on-going as of end December 2010:

- Completion of construction of Depot in Talisayan, Zamboanga City;
- Completion of Tank 5 in Calaca, Batangas liquid storage terminal
- Start of construction of terminal facilities in Phividec, in Tagoloan, Misamis Oriental (Northern Mindanao),
- Award of contract for the proposed depot site Bacolod City and additional tanks in Calaca, Batangas.
- 41 Retail Stations completed and Additional On-going Construction of Phoenix Service Stations in various sites in the country.

### **Human Resources**

Year 2010 can be gleaned as the shining moment where the Human Resources Department (HRD) of Phoenix Petroleum Philippines, Incorporated was at the forefront of major activities and movements that were held for the benefit of the employees.

This was consistently in line with how the Management of Phoenix Petroleum treasures its most valued assets – its employees who are working individually and collectively to contribute to the achievement of the objectives of the business. In simple words, HRD was looking after the Company's people, developing their capacities, utilizing, maintaining and compensating their services in tune with their respective job descriptions and organizational requirement.

More than anything else, the Human Resources department had the important task, just like in any organization, of securing to hire and retain the most qualified staff. This became a challenge that was eventually hurdled considering that HRD had the right tools to complete the administrative tasks of the Company. This was further achieved by coordinating with the executives of the Company through issuance of new policies; provide training to employees and the holding of several strategic planning sessions, team buildings, and other breakout sessions.

Notable policies issued for this year were: the Uniform Policies which provided all employees with office attires that they can proudly wear with distinction; a generous Vehicle Policy where executives and managers can avail of a car plan under a sharing scheme with the Company while other qualified employees are given vehicles which they can use for their official duties; and Desktop and Laptop Policies where employees are given the privilege of owning a desktop or laptop of their choice also in accordance with a sharing scheme with the Company.

On top of promoting qualified employees to the next higher rank, their competencies were further enhanced when a number of employees were sent by the Company to attend various trainings and seminars. These employees eventually applied their new knowledge to their respective responsibilities while at the same time disseminating these knowledge and information to their co-workers in the Company.

While it was an economically challenging year, Management was magnanimous in rewarding its employees through the implementation of a merit system through which employees were given salary increases as well as a performance enhancement program that generously provided employees with the potential to earn an additional two months-salary as a bonus on top of what is provided by law. Much more can be said of the benefits provided throughout the year where the end result will always be for the welfare of the employees. Truly, the rewards system of the company was at its finest.

The company, though is not all about work. It is also about fun and pleasure as it held sports activities, Company outings, and other activities for all its employees in Luzon and Davao that consequently resulted in a deep understanding and camaraderie among its employees. What an exciting year 2010 it was!

Moving forward, HRD shall conduct an annual human resources audit to gather valuable information about the organization and how to improve weaker departments heading into the future. This audit would then assess the Company's previous performance and provide a comprehensive review of all facets of the Human Resources department.

The Human Resource Department was at the forefront of providing quality services and benefits to the employees of the Company. In line

with its mandate of taking care of its employees, the company provided essential lectures and programs on health touching on topics involving dengue fever, swine flu, and the feared AH1N1 virus, among others. The Company provided also its employees with medical and health insurance on top of giving each of them an executive check-up on top of the annual physical examination to make sure that everyone has a clean bill of health.

Under the auspices of the HRD, the company equipped the employees with several trainings and also undertook several organizational development programs to enhance their professional and personal development. These programs will enable the employees to have a career path that takes into consideration their professional capacities, education, leadership potentials, and relationship with their co-workers in the organization.

#### **i) Organization Development**

HR reviewed and redesigned the Company's lean, flat organization structure, which continued to allow the Company the flexibility to function and coordinate within different business units and across subsidiaries at the speed in which the company was growing. Correspondingly, HR initiated efforts for all employees to appreciate and understand the new organization structure through the establishment of the Position Classification System. HR communicated to each employee the corresponding job levels and reporting relationships across the different business units.

#### **ii) Competency Enhancement**

This was done through the conduct of strategic planning and leadership workshops for all managers and supervisors. Participants were encouraged to think innovatively and creatively, while making reference to the Company's Vision, Mission and Core Values (VMV). The Company's leadership competencies are anchored in its VMV. In the second quarter of the year, through the Human Resource Department, a company-wide training for Role in Building a Service Culture Workshop for all Employees. The two-day workshop aimed to create ownership and commitment to improve teamwork and customer service, the Phoenix Way (Willing, Able and Yes We Can!). At the end of the activity, each team came up with specific action steps necessary to achieve the organization's desired Customer Service priorities and Standards.

#### **iii) Performance Management**

With the end view of motivating employees, HR continuously did a re-orientation of the designed and implemented a performance management system that was directly linked to the company's business plans and objectives. The thrust was to refresh the existing and as well as the new employees and link corporate plans and strategies to measurable and

individual goals and objectives. HR designed the Performance Management and Career Development Program (PACE-Pro) with the view of objectively managing work performance and expectations while providing a systematic approach for development and career plans of individuals. Employees are always made aware of how their work performance would be measured, how competencies can be improved as well as the consequences and rewards that go with the performance results. The PACE-Pro is a strategic HR tool with the goal of establishing a Pay-for-Performance culture in the organization.

#### **iv) Employee Welfare**

In a concerted effort to become a competitive and reputable employer in the business community, the Company made a policy decision to institutionalize health and welfare benefits to its employees. HR designed and implemented a health and welfare package that was competitive, practical and applicable to all areas of assignments. The impact of the healthcare benefits was significantly felt following major cases of employee hospitalization. The significance of this gesture was not lost on the PPPI family: the Company showed that in spite of its growth from a small family business to a publicly-listed company, the Company continues to make the welfare of its people a primordial concern. An invigorated Human Resource Department was at the forefront of providing quality services and benefits to the employees of the Company. In line with its mandate of taking care of its employees, the company provided essential lectures and programs on health touching on topics involving dengue fever, swine flu, and the feared AH1N1 virus, among others. The Company provided also its employees with medical and health insurance on top of giving each of them an executive check-up on top of the annual physical examination to make sure that everyone has a clean bill of health.

#### **v) Employee Relations**

By fostering open communication, family spirit and employee well-being, HR organized teambuilding activities which included Phoenixtreme Quest 2010, a highly competitive, team-based and task-oriented event for all employees. The year's team "Nation's Brand of Choice". The sportsfest motivated everyone to push their limits not just in physical skills but as well as in planning, creativity and resourcefulness. The Annual Christmas Party, with the theme "Phoenix Superheroes", was a good venue for employees to dress like superheroes, relax, have fun and showcase various talents. This also enhanced the relationship and camaraderie among the Officers and Employees of the company.b

### **External Affairs Department**

A newly created department in the organizational structure of Phoenix Petroleum in order to specifically address government and media relations, the External Affairs Department was primarily responsible in securing all the necessary permits mandated under the Oil Deregulation Law of 1998 and the numerous licenses required by the Local Government Code before the robust Calaca Terminal with a 50-Million liter capacity became fully operational.

External Affairs also complied with the reportorial requirements of the Department of Energy on matters involving supply, inventory, and price movements of petroleum products. Also, in view of the importation of petroleum products midway into the year, the External Affairs also registered the importations with the Large Taxpayers Service – Excise of the Bureau of Internal Revenue for its payment of the taxes and duties due on its imported articles. For this reason, the company was granted a Permit to Import Gasoline and Diesel by the BIR. In addition, it was authorized by the BIR as a producer of Bio-Fuel Blended Diesel (B2) and Motor Gasoline (E10) in compliance with the requirements of the Bio-Fuels Act of 2006. All importations of the Company have been duly covered by the appropriate permit issued by the Customs Accreditation Secretariat of the Bureau of Customs.

The External Affairs Department was primarily responsible for the publication of press releases in major newspapers as well as tabloids involving the operations and performance of the Company. It was also responsible for the radio, television, and newspaper coverage's of any price movements undertaken by the Company of the volatile oil prices.

### **Corporate Social Responsibility**

The Phoenix Foundation, has the following activities for the year:

#### Education

- Continued support of “Adopt a School” program of Vicente Hizon Elementary School, in Davao City
- Built a small “Phoenix Library” with educational books and materials for pre-school students of V. Hizon Elementary School and San Roque Central Elementary School (October 2010)
- Built the “Phoenix Livelihood Center” at Doña Asuncion Hizon High School, where the Phoenix Alternative Livelihood System Program is on its second year . Tthe first batch of graduates received their certificates of completion on May 23, 2010
- Grant to the Lyceum of the Philippines University to establish the Phoenix Petroleum/Domingo T. Uy Professorial Chair on International Trade on Sept. 15, 2010

#### Environment

- Participated in the Earth Hour Worldwide Campaign against global warming (March 27, 2010)
- 
- Coastal Cleanups in Sasa, September 03, 2010 simultaneously in Davao City and Calaca, Batangas
- Tree-Planting(2,000 malibago seedlings) and Tilapia Releasing(5,000 fingerlings) at the Davao River on two occasions: May 1, 2010 and November 20, 2010

#### Health

- Blood-letting in coordination with the Philippine National Red Cross at our offices in Davao City, January 20, 2010 and at the Manila Office, Taguig City on July 20, 2010
- Donation to the Dr. Gerry Cunanan Mindanao Heart Fund, which was used to successfully operate on a 10-year-old heart patient, March 24, 2010.

#### Outreach

- Medical and Dental Missions in Barangay Salong Calaca, Batangas on April 17, 2010
- In Sasa, Davao City (September 26, 2010) and Polytechnic Univ. in Digos, Davao del Sur on November 27, 2010
- 
- Christmas Day for Kids in Sasa on December 30, 2010 Davao City

### **Health, Environment and Safety (HES) Management**

#### **Preamble**

As a business and as a member of the Pilipino community, Phoenix Petroleum Philippines Inc. is committed to creating superior value for our investors, customers, partners, our employees, host governments and local communities where we operate.

One of the most critical challenges facing Phoenix today is to follow sound environmental practices and protect the health and safety of our employees, customers and the public while maintaining and improving our profitability.

#### **Goals & Objectives**

As the world's focus on environmental conservation, health and safety issues increases, it is more important than ever for Phoenix to fulfill our social responsibilities as part of our business goals.

To accomplish this, we must achieve a thorough integration of environmental, health, fire and safety issues into our day-to-day business decision-making processes and into our long range strategic planning. To succeed, we must deliver world-class performance and meet and even exceed the capabilities of our strongest competitors.

We will continue to systematically manage HES issues in order to:

- Achieve an injury-free work place.
- Promote a healthy workplace and mitigate significant health risks.
- Eliminate spills and environmental incidents. Identify and mitigate key environmental risks.
- Operate incident-free with asset reliability.
- Maximize the efficient use of resources and assets.

### **HSE Training and Workshops**

The knowledge and philosophy of accident prevention is not just common sense, as some people proclaim. It is a specialized body of information accumulated and "internalized" over a period of many years; eventually becoming a "Way of Life ."

The most direct way to develop the desired attitudes and to impart the necessary information about safety into employees is to provide comprehensive courses of safety instructions.

A series of 18 basic safety modules have been lined up. Modules 1, 2 and 3 are currently running

Advance safety and environmental management courses are being conducted:

#### **Module-1**

##### **Introduction to the Phoenix HSE Management System**

Module 1 introduces the Phoenix HSE Policy and the Elements of the Phoenix HSE Management System.

#### **Module-2**

##### **Loss Prevention**

Module 2 discusses accidents and incidents, areas of responsibility, the cost of accidents, and knowing the best approach to safety performance on the job.

#### **Module-3**

##### **Accident Investigation and Reporting**



Module 3 discusses Accident Investigation and Analysis: finding causes, emergency procedures, effective use of witnesses, and reports.

HSE will continue to offer more safety as well as operations training courses.

#### Other 2011 Programs:

- Continue to develop HES management programs
- Continue to communicate hazard information through print media forum, e.g., safety bulletins, and training schedules
- Continue to monitor field compliance and accomplishment of recommendations highlighted in the HES audit reports
- Continue management intervention to ensure compliance with the spirit and intent of the company's HES Policy

#### Other Health and Safety Programs:

##### **Health and Environment - Air emissions:**

In our operations emissions of various air pollutants is normal particularly in handling and distribution of volatile fuels such as gasoline. Vapors released have damaging impact on air quality and pose a threat to health and the environment. To control these emissions, the Company takes responsibility for controlling air emissions seriously, and tries to minimize their impact on human health and the environment. Phoenix Petroleum recognizes that the issue has a global dimension, but believes it makes sense to deal with air emissions at a local level: to tackle the problem at source.

#### **Our approach**

Volatile fuels such as gasoline, when exposed to air and heat evaporates and releases hydrocarbon vapours, often described as volatile organic compounds or VOCs. Storage tanks **without vapour control equipment** will release to the atmosphere VOCs, estimated around 1.5 % of annually throughput volume. These gases are potentially harmful air pollutants which can result in local health impacts as well as local or regional contributions to the formation of low level ozone contributory to global warming. Control of hydrocarbon loss helps us prevent impact on air quality and is also economically beneficial. The Company has invested on tank internal floating roofs in all storage tanks for volatile products to ensure controlled emissions of VOCs with in levels safe to community and environment.

Moreover, the Company has invested on biofuels project. Storage tanks for ethanol have been constructed and biodiesel processing plants now on the design phase. Use of these alternative fuel source blended with fossil fuels

will contribute in the reduction of carbon emission, the key element causing “Global Warming”

### **Safety- Training Business Partners**

In the 1<sup>st</sup> Quarter of 2009, the Company had its 1<sup>st</sup> National Dealer’s conference held in Davao City. Dealers as far as Cagayan Valley attended the two day training and appreciated the knowledge gained particularly on safe handling of petroleum products. Lecture and video presentations on good housekeeping as basic guideline to accident prevention and proactive approach on fire protection inculcated the value of safety training. Training CDs were distributed to the Dealers for them to share their learning to their staff as well.

### **Other Safety Measures**

To enhance safety and security on company employees, business partners, company assets and premises, the Company embarked on the following program:

- Trained bomb sniffing dog that regularly checks the depot premises at least (three) 3 times a day. We have one specially trained dog handler that takes care of the dog and regularly makes their rounds every day. The dog checks on our tank farm, port, tankers etc. These trained dogs are also deployed on all other depot sites.
- Upgrading Global Positioning System to Company tankers and Lorries to be able to do tracking of the exact whereabouts of these delivery equipments on almost real-time basis. This is very beneficial to ensure safety of drivers, tankers and products. This is also tracks the on time delivery of products. Implementing this security and monitoring feature in the nationwide Company Operations.
- As additional safety and security measures, the Company raised the perimeter wall of the Davao Depot. This is intended to always ensure that facilities are safe and out of danger from terrorists, burglars, all kinds of treats, real and imaginary.
- Installed additional sprinkler system on the storage tanks from the top most part in order to cool the tanks and protect the Product and the depot in case of fire and to reduce vapor loss.
- The Company installed additional safety and security signs all over the Davao Depot premises to always caution everyone and to keep all persons and properties out of danger.

### **EXTERNAL AFFAIRS ACTIVITIES**

The External Affairs Department of Phoenix Petroleum Philippines, Incorporated was tasked with a wide range of activities in 2010. More importantly, External Affairs was concerned on the relationship of the Company with its stakeholders. These were the individuals or groups with an interest in the Company's affairs, such as Government, customers, clients, business associations groups, and the media. The activities primarily revolved and specialized in media relations, government compliance and association, and business unit support and inter-relations across the numerous Departments of the Company.

External Affairs became involved with these stakeholders in order to explain the Company's policies, provide statistical and factual information and to lobby on issues which could impact upon the Company's operational procedures and success. External Affairs primary goal was to integrate government and legal compliance, media relationship and communications, issue and conflict management, corporate and social responsibility, and the proper dissemination of information.

Simply put, the Department was responsible in trying to combine all external non-commercial activities of the Company through the creation, development, and carrying out of policies and programs that will influence public opinion and reaction about the Company and its products. It sought to influence public policy, build and maintain a strong reputation and find a common ground with these stakeholders.

For the year under consideration, External Affairs carried out not only what were considered as usual and traditional PR activities. It focused more on the enhancement of media relationship as compared to the past years where Media was seldom tapped. External Affairs was convinced that media was a significant stakeholder to the Company. The enhancement involved several activities notably writing press releases and articles, researching, producing annual reports and managing databases, records, and building up relationships with media practitioners and contacts.

The Company was very prominent in 2010 in public coverage as it was conspicuously present in the Q-Media (television, radio, print, and internet) when all major achievements of the Company was regularly carried by the Media. Regular Press Releases like Quarterly Reports, Annual Reports, Station Openings and Inaugurations, Major Company Activities like the Business Partners Night and the Phoenix Open, Preferred Shares, Annual Stockholders Meeting, Quarterly Income, Growth Projections and PSE disclosures were published in newspapers of general circulation and local tabloids.

The Company was also noted in Q-Media exposure on various pump price adjustments made during the year under consideration including footages of

actual meetings and consultations with the Department of Energy.

Needless to say, the Company has a solid and firm professional relationship with the members of the Media, notably the Business and Energy Reporters as well as reporters covering the Securities and Exchange Commission as well as the Philippine Stock Exchange.

As a publicly-listed Company, External Affairs was at the forefront of legal compliance as it ensured that the Company's transactions are all legal and in compliance with what was required by law and government regulations. External Affairs represented the Company in various technical consultations and hearings conducted by the National Government on matters relating to energy, taxes, and incidental matters affecting the Philippine Oil Industry.

The Department also saw to it that mandatory reports, permits, licenses, and other warranted documentations are fully complied with. These included the various permits and licenses and requisite compliance from the appropriate National and Local Government units concerned including government agencies such as the Department of Energy, the Department of Finance, Department of Interior and Local Government, the Department of Environment and Natural Resources, the Bureau of Internal Revenue, the Bureau of Customs, the Philippine Ports Authority, to name a few.

More than anything else, the Company is not merely interested in the bottom line figures. It also serves the various communities where it has business operations. It returns and gives back to the community in terms of notable projects for the benefit of its constituents. These were undertaken by External Affairs through its Corporate Social Responsibility projects and programs in coordination with the Phoenix Foundation that focused on livelihood, education, environment, and health such as but not limited to Adopt-a-School and Adopt-a-River programs, Coastal Clean-up, Livelihood Trainings, Road Safety Seminars, Installation of Road Signs, and various donations to the local government units where the Company has operational business.

## **2. Business of Issuer**

### **i) Principal's products or services and their markets and distribution method:**

The Company's main line of business is the trading of refined petroleum products, lubricants and other chemical products on a wholesale basis

nationwide. It also operates oil depots and storage facilities, and allied services. The Company's ultimate markets are motorists, companies using petroleum products and lubricants as well as airline companies in need of specialized services.

It sells refined petroleum products through its network of retail service stations, carrying the "Phoenix Fuels Life" brand name. Its retail service stations are located mainly in the Davao Regions and Southern Mindanao prior to 2008. Starting 2008, the company started expanding its retail business in neighboring provinces, then into Luzon and Visayas. The Company also directly serves commercial and industrial accounts.

The Company also distributes lubricants and chemicals. The Company also produces its own blend of lubricants variety and sells these under the Phoenix brand name. Banner product is the Cyclomax, a motorcycle oil brand.

The Company provides storage space for the Jet fuel supply of Cebu Pacific Airlines (CPA) for the latter's requirements for their Davao, Cagayan de Oro, Cotabato, General Santos, Zamboanga City, Pagadian City and Ozamis City flights. The Company is the exclusive service provider for CPA in all its Mindanao Operations.

**ii) Percentage distribution of sales or revenues:**

The Company had a Total Revenue of ₱ 14.8 billion in 2010 of which ₱14.60 billion or 98.50% was accounted for by the sales of petroleum products and ₱0.107 billion was accounted for by fuel service, storage income and other income. For 2010, ₱ 45.8 million and ₱ 82.1 million was recognized as port revenue and land sale respectively.

**iii) Other products or services:**

In addition to its lubricant lines, the Parent Company continues market car care products into the market including car fresheners, tire black, and others. In response to the automotive market's demand for better oil formulation for Heavy Duty Engine Oil, Phoenix launches Zoelo Extreme with better formulation and in new label designs. This formulation meets API CI-4/SL standard that offers superior quality and heavy duty engine performance among SAE 15w-40 Multi-grade engine oils. This variant is also suitable for mixed fleet of diesel and gasoline engines. In 2010, the Parent Company re-launches its Cyclomax Motorcycle Oil.

**iv) Competition:**

The Company's main competitors are the major players in the downstream oil industry namely, Petron, Shell and Chevron and other multi-national industry players such as Total (of France), PTT (of Thailand) and other independent

players such as Unioil, Seaoil Flying V and Jetti. The three major players are estimated by the DOE to have a market share of 79% of the total Philippine market as of December 31, 2010 while the balance is shared by other multinational player and independent players as a group control 21%. Total cornered around 4.3%, PTT is 2.3% and the balance is share the independent. The Company estimates that it has a share of 2.54% of the total Philippine market and about 7.25% for the total Mindanao market.

The Company competes with other players in the industry in terms of pricing, quality of service and products, and strategic locations of its service station retail network. As of December 31, 2010, the Company has a network of retail stations in Mindanao which is estimated to be 11% share on retail network.

#### **v) Sources and availability products and principal suppliers**

In prior years until 1<sup>st</sup> half of year 2009 the Company procures its petroleum products locally. Its main suppliers are PTT Philippines Corporation as well as Total Philippines Corporation. With the growth in volume and the availability of the capacities with the opening of the Calaca, Batangas facility and the Davao expansion, the Parent Company started importing refined petroleum products in July 2009. In 2010, the Parent Company mostly sourced its petroleum supply from Singapore and Taiwan. The Company also sourced products from Thailand, Korea and China through various foreign traders and suppliers.

The Company continues to import some of its lubricants from Singapore.

#### **vi) Transactions with and/or dependence on related parties.**

The Company has transactions with related parties as follows:

- UDENNA Corporation.

Lease of properties to which UDENNA Corporation owns or has rights to. These leases are elaborated further on the section on Leased Properties;

- Chelsea Shipping Corporation (CSC).

The Company has a Contract of Affreightment with CSC to haul the Company's petroleum supplies. CSC serves other clients including PTT Philippines Corporation, Cebu Pacific Airways, Marine Fuels, National Power Corporation, Pilipinas Kao, Inc., Filpride Resources, Inc, Ludo Luym, Total Bulk Corporation for Philippine Airlines and Air Philippines.

#### **vii) Patents, trademarks, licenses, franchises**

The Company uses its registered PHOENIX Fuels Life <sup>TM</sup> trade mark, for its brand, this is being positioned as the brand of choice in Mindanao. Branding is a cornerstone of the Company's marketing program. It sells its refined petroleum products as Magma Diesel, Raptor Premium Gasoline, Glide Unleaded 93-RON, Phoenix Regular Gasoline, Flame Kerosene and Phoenix JET A1. Below are the approved Trademark by the International Property Philippines (IPP) through the Trademark Department.

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

**viii) Total number of employees**

The Company has a total of 329 and 250 employees as of December 31, 2010 and December 31, 2009 respectively. This is broken down as follows:

	<b>2010</b>	<b>2009</b>
Chairman	1	1
President/CEO	2	2
Vice President	3	3
Assistant Vice President	9	6
Senior Manager	8	6
Managers	20	18
Supervisor/PTC*	102	79
Rank and File	184	135
	<b>329</b>	<b>250</b>

\* Professional, Technical and Confidential

There are no labor unions in the Company and its subsidiaries nor were there any labor cases filed against the Company and its subsidiaries.

Aside from the statutory benefits, the Company grants group term life insurance and hospitalization benefits fully paid by the Company. It also provides free uniforms, free meals, and vacation, sick and emergency leaves to all its regular employees.

## **Major Risks Involved**

### **Risk Factors**

The Company recognizes, assesses and manages certain risks that could materially and adversely affect its business, financial condition, results of operations and prospects.

An integral part of its risk management process involves the establishment of a Credit Committee, Pricing Committee, an Internal Audit Department, and organization of special teams to conduct financial analysis, planning and evaluation of company projects/plans and other business activities. Monthly Business Unit reviews are conducted to identify risks, threats and opportunities, and to ensure that concerned units manage or promptly address identified risks.

### **Major Risks**

The Company manages the following major risks relative to its business, industry and area of operations:

#### **Volatility of prices of fuels.**

Oil prices, which have been and are expected to continue to be volatile and subject to a variety of factors beyond the Company's control could affect the Company's profitability, liquidity and sales volume.

#### **Intense competition.**

Competitive pressures from the majors and all other independent/new players could lead to a possible loss of market share or a decrease in prices, either of which could result in decreased revenues and profits. The Company's competitors are numerous, ranging from large multinational corporations, which have significantly greater capital resources, to relatively small and specialized regional companies.

#### **Material disruptions in the availability or supply of fuel.**



As a trading concern, the Company largely depends on its ability to find stable source of supply of fuel oil, diesel oil and blend components to assure uninterrupted supply of requirements of its customers. Some of its fuel purchases are negotiated transactions with suppliers offering fuel for immediate or near term delivery, also known as the spot market. In times of extreme market demand or other supply disruptions, there may be possibility of having limited supply to fully satisfy requirements of customers or of having to buy at higher prices in order to meet customer demand.

**Reliance on third parties to fulfill their obligations on a timely basis.**

The Company, at certain levels, depends on some third party providers for various aspects of its business. As such, it runs the risk that suppliers and service providers may fail to honor their contractual obligations. The Company relies on suppliers of fuel to regularly provide it with inventory. Shipping companies and charter tankers are contracted to transport fuel oil, diesel oil and blend components from suppliers' facilities to service centers. The failure of these third parties to fulfill their obligations or to perform the services they have agreed to provide could affect the Company's relationships with its customers or may lead to our not being able to honor its own contractual obligations to other parties.

**Regulatory risk.**

Risk can arise from changes in government policies and regulations that may limit the Company's ability to do business or require it to incur substantial additional costs or otherwise materially adversely affect business, results of operation or financial condition.

**Risk Management and Mitigants**

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

The Company's financial results are primarily affected by the relationship, or margin, between the prices and cost for its petroleum products, which generally accounts for more than 99% of the Company's total cost of goods sold. Many factors influence the price of petroleum products, including changes in global supply and demand for crude oil, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation and other factors over which the Company has no control. Historically, international crude oil prices have been volatile, and are likely to continue to be volatile in the future. International crude oil prices were especially volatile in 2008, with Dubai crude oil reaching a record-high of US\$141/bbl in July 2008 and falling to US\$40/bbl in December 2008. Prices have recovered and stabilized in 2009, but there is no assurance that prices will remain stable over the near and medium term.

Since the Company holds approximately thirty (30) days inventory of petroleum products and accounts for its inventory by the first-in-first-out method, a sharp drop in retail prices could adversely affect the Company as it may require the Company to sell its petroleum products at lower prices compared to its higher priced inventory. Although the Company operates in a deregulated industry, the Company may not be able to pass fluctuations in the price of imported petroleum products to its consumers in a timely manner due to social and competitive concerns. Any inability to pass on fluctuations in the price of crude oil may have an adverse effect on the Company's business, results of operations and financial condition. In addition, even if the Company were able to pass on increases in the price of crude oil to its customers, demand for its products may decrease as a result of price increases.

On the other hand, a sharp rise in the price of imported petroleum products will increase the Company's requirements for short-term financing for working capital and may result in higher financing costs for the Company. Any difficulties in securing short-term financing for working capital, or unfavorable pricing terms, may have an adverse effect on the Company's financial condition and results of operations.

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

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

The Company faces intense competition in the sale of petroleum and other related products in the Philippines. The Company competes with a number of multinational, national, regional and local competitors in the refined petroleum products business for market share of petroleum products sales. Because of the commodity nature of oil products, competition in the Philippine domestic and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs. In addition some of these competitors, notably Petron, Shell and Chevron, have significantly greater financial and operating resources than the Company, and could arguably dictate domestic marketing and selling conditions to the detriment of the Company.

The Company's competitiveness will depend on its ability to manage costs, increase efficiency throughout its supply and distribution network, effectively hedge against fluctuations in petroleum prices and maximize utilization of its assets and operations. If the Company is unable to compete effectively with its competitors, its financial condition and results of operations, as well as its business prospects, could be materially adversely affected.

To mitigate this risk, the Company is continually strengthening and expanding its distribution network to ensure its presence in growing markets. The Company continues to invest in strengthening its brand to ensure that it is consistently recognized and recalled by its target market, and improving customer service to a level at par with or superior to its competitors.

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

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

To mitigate this risk, the Company continually reviews its network expansion program by identifying and anticipating target locations, dealers and operating and logistics requirements up to a year in advance. In this way the Company is able to mobilize financial and operating resources in a timely manner. The Primary Offer is an important component of its financing program in support of its expansion plans.

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

The Company's business is capital intensive. Specifically, the importation, storage and distribution of petroleum products require substantial capital expenditures. The Company's ability to maintain and increase its sales, net income and cash flows depends upon its continued capital spending for, among others, the construction of storage and wholesale distribution facilities and equipment, the construction of retail gas stations and the acquisition of tanker trucks. The Company's current business strategies involve the construction of new terminal facilities and the expansion of its service station networks. See "Business—Capital Expenditures Plan" for more information about the Company's capital expenditure plans. If the Company fails to complete its capital expenditure projects on time or at all or within budget, or to operate such facilities at their designed capacity, it may be unable to increase its sales and profits or to capture additional market share as planned, and its business, results of operations and financial conditions could be adversely affected.

In addition, the Company may continue to incur additional indebtedness to finance its capital expenditure projects. The Company's ability to complete its capital expenditure projects and meet its debt servicing obligations will

depend in part on its ability to generate sufficient cash flows from its operations and obtain additional financing. There can be no assurance that the Company will be able to generate sufficient cash flows from its operations or obtain adequate financing for its capital expenditure projects or to meet its debt servicing obligations, on acceptable terms or at all. Failure by the Company to finance and successfully implement its capital expenditure projects could adversely affect its business, financial condition and results of operations.

To mitigate this risk, the Company follows a conservative financing strategy to optimize its leverage and ensure that the costs of financing are well within the Company's ability to meet. The Offer is an important part of this financing strategy, as it provides the Company with added flexibility to acquire additional financing to support its medium term expansion and capital expenditure plans.

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

The Company's operation of its storage and terminal facilities and retail gasoline stations could be adversely affected by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters and other unforeseen circumstances and problems. These disruptions could result in product run-outs, facility shutdown, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and/or unplanned inventory build-up, all of which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Although the Company has purchased insurance policies covering a substantial portion of foreseeable risks, these policies do not cover all potential losses, and insurance may not be available for all risks or on commercially reasonable terms. There can be no assurance that operational disruptions will not occur in the future or that insurance will adequately cover the entire scope or extent of the losses or other financial impact on the Company.

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

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

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

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

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

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

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

Although the Company operates in a deregulated industry, the Government has historically intervened from time to time to restrict increases in the prices of petroleum products. For example, on October 2, 2009, former President Gloria Macapagal-Arroyo declared a state of national calamity in view of the devastation caused by typhoons "Ondoy" and "Pepeng". President Arroyo

subsequently issued Executive Order 839 mandating that prices of petroleum products in Luzon be kept at October 15, 2009 levels effective October 23, 2009. As a result of the price freeze, the Company was unable to raise prices, which adversely affected its profitability for the period the executive order was in effect. Although this was lifted on November 16, 2009, there is no assurance that the Government will not invoke similar measures or reinstate price regulation in the future, which may adversely affect the Company's results of operations.

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

The Company may be adversely impacted by the fluctuations in the value of the Philippine Peso against the U.S. dollar.

A substantial portion of the Company's revenues is denominated in Philippine Pesos while a substantial portion of its expenses, notably the cost of imported products are denominated in U.S. dollars. In 2010, 91% of the Company's revenues were denominated in Philippine Pesos, while approximately 85% of its cost of goods sold were denominated in U.S. dollars. The Company's financial reporting currency is the Peso, and therefore depreciation of the Peso would result in increases in the Company's foreign currency denominated costs and expenses as reflected in its Peso financial statements, thereby adversely affecting the Company's results of operations and financial condition. In addition, there can be no assurance that the Company could increase its Peso-denominated product prices to offset increases in its cost of goods sold or other costs resulting from any depreciation of the Peso. Since January 1, 2007, the value of the Peso against the U.S. dollar has fluctuated from a high of P 40.36 per U.S. dollar on February 28, 2008 to a low of P 49.984 per U.S. dollar on November 20, 2008. There can be no assurance that the value of the Peso will not decline or continue to fluctuate significantly against the U.S. dollar and any significant future depreciation of the Peso could have a material adverse effect on the Company's margins, results of operations and financial condition.

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

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

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

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

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

The Company’s future success is dependent upon the continued service of its key executives and employees. The Company cannot assure potential investors that it will be able to retain these executives and employees. If many of its key personnel were unable or unwilling to continue in their present positions, or if they joined a competitor, the Company may not be able to replace them easily, and the business of the Company may be significantly disrupted and its financial condition and results of operations may be materially and adversely affected.

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

**If the number or severity of claims for which the Company is insured increases, or if it is required to accrue or pay additional amounts because the cost of damages and claims prove to be more severe than**

**its insurance coverage, the Company's financial condition and results of operations may be materially adversely affected.**

The Company gets insurances to cover its properties and certain potential liabilities. The Company's insurance coverage includes property, marine cargo and third party liability. The Company estimates the liabilities associated with the risks retained by it, in part, by considering historical claims, experience and other actuarial assumptions which, by their nature, are subject to a degree of uncertainty and variability. Among the causes of this uncertainty and variability are unpredictable external factors affecting future inflation rates, discount rates, litigation trends, legal interpretations and actual claim settlement patterns. If the number or severity of claims for which the Company is insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than its original assessments, the Company's financial condition, results of operations and cash flows may be materially adversely affected.

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

### **Risks Relating to the Philippines**

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

Historically, the Company has derived all of its revenues and operating profits from sales of its products in the Philippines. The Company's product demand and results of operations have generally been influenced to a significant degree by the general state of the Philippine economy and the overall levels of business activity in the Philippines.

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

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

Any deterioration in the Philippine economy, including a significant deterioration in the value of the Philippine Pesos, may adversely affect



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

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

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

The Philippines has been subject to a number of terrorist attacks since 2000. The Philippine army has been in conflict with the Abu Sayyaf organization, which has been identified as being responsible for kidnapping and terrorist activities in the Philippines. In the past, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network.

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

On August 23, 2010, eight hostages were killed in a hostage situation aboard a tour bus in Manila. This resulted in the Hong Kong Special Administrative Region government issuing a "black" travel alert for the Philippines. An increase in the frequency, severity or geographic reach of terrorist, hostage taking or similar acts could destabilize the Philippines, increase internal divisions within the Government as it evaluates responses to that instability and unrest and adversely affect the country's economy. There can be no assurance that the Philippines will not be subject to further acts of terrorism in the future.

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

The Philippines has experienced a number of major natural catastrophes in recent years including typhoons, volcanic eruptions, earthquakes, mudslides, droughts and floods related to the El Niño and La Niña weather events. Natural catastrophes may disrupt the Company's ability to produce or distribute its products and impair the economic conditions in the affected areas, as well as the overall Philippine economy. The Philippines has also experienced electricity blackouts, both from insufficient power generation and from disruptions such as typhoons. These types of events may materially disrupt and adversely affect the Company's business and operations. The Company cannot assure prospective investors that the insurance coverage it maintains for these risks will adequately compensate the Company for all damages and economic losses resulting from natural catastrophes or blackouts, including possible business interruptions.

### **3. Description of Property:**

The Company's properties consist of its terminal, depot facilities, head office building, pier and pipeline structure and its accessories, steel cylindrical tanks, and stocks of all petroleum products stored and contained inside the depot. In March 2009, after acquisition of BIPC by the Parent Company, the Group has additional Port Facilities, Land Held for Sale and Land Held for future developments.

Under the terms of agreements covering the liabilities under trust receipts, certain inventories of petroleum products released to the Company are held in trust for the bank. The Company is accountable to the bank for the trustee inventories or their sales proceeds.

#### **Leased Properties**

##### **Lease with Udenna Corporation**

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

Following are the relevant terms of the lease contracts:

The Company's sublease contract with Udenna Corporation was originally for a term of three (3) years, from January 2007 to December 2009. The lease was renewed for another term of three (3) years, commencing from 01 January 2010 to 31 December 2012, subject to further renewal under terms and conditions to

be agreed to by the parties. The lease contract by Udenna Corporation with the Heirs of Stella Hizon Reyes over 1.1 hectares is effective for twenty one (21) years, which shall expire on March 20, 2027, subject to renewal upon terms and conditions to be agreed to by the parties. The same term for purposes of synchronization was implemented over the lease of the remaining area which is 1.2 hectares with the lessor for the expanded area which is now leased under the name of PPPI.

- The Company shall pay Udenna Corporation a monthly rental at the rate of P12.00 per square meter, or a total of P132,000 per month, plus 10% value-added tax and 5% withholding tax. Rent shall be subject to a 10% increase every succeeding year commencing on August 2005. For the property leased from the Heirs of Stella Hizon Reyes, the Company shall pay a monthly rental of P10.00 per square meter for the first two years and shall be increased at a rate of 10% after every two years until the termination of the contract.
- The leased premises shall be exclusively used by the Company for petroleum and fuel products storage and for its pier facilities or any other related business. The Company is prohibited from using the leased premises for any other purpose without the prior written consent of lessors.
- The Company may not introduce improvements or make alterations or changes without the written consent of Udenna Corporation, except the construction of the necessary offices, storage tanks and other improvements required by the business of the Company.
- Udenna Corporation shall have the right to pre-terminate the sublease on any of the following grounds: (a) non-payment of rentals for at least two (2) consecutive months; (b) if the Company, at any time, fails or neglects to perform or comply with any of the covenants, conditions, agreements, or restrictions stipulated in the lease contract; or (c) if the Company shall become insolvent. Udenna Corporation shall give the Corporation one (1) month notice prior to the intended date of termination. The Company may pre-terminate the lease, upon prior thirty-day written notice to Udenna Corporation.

#### **Leased Properties for Terminal/Depot Sites**

Following are lease contracts entered by the Company as part of its Terminal/Depot expansion project:

- **General Santos City.** A fifteen-year (15) lease contract, with option to renew for another five (5) years, was entered with Southern Fishing Industries, Inc. for the 10,000 square meters property located at Tambler, General Santos City. Monthly rental is P300,000 (exclusive of VAT) per month and 5% increase every year commencing on the second year and thereafter. Contract was signed on May 7, 2008.

- **Zamboanga City.** The Company entered to a lease agreement with Jordan Fishing Corporation for an area of 10,000 square meters for a period of ten (10) years, with an option to renew for another five (5) years. Monthly lease rental is five hundred thousand pesos (₱ 500,000.00) with an increment of five percent (5%) every two years. The said lease agreement commenced November 16, 2008. This said lot house the 5.5 million liter capacity depot of the Parent Company which supports the retail network and the commercial and industrial accounts.
  
- **Bacolod City.** A parcel of land with a an area of 10,000 square meters more or less was leased from Jordan Fishing Corporation for ten (10) years starting January 01, 2008. Monthly lease rental is Five Hundred Thousand Pesos (₱ 500,000.00) excluding Value Added Tax with a five percent (5%) increment of rental rate every two (2) years. An option to renew for another five (5) years is provided in the contract.
  
- **Villanueva, Misamis Oriental.** An agreement was entered with Phividec Industrial Authority (PIA), a government owned corporation of a parcel of land situated at Katipunan, Villanueva, Misamis Oriental. The subject property has an area of fifty-eight thousand nine hundred eighty-four square meters (58,984 sqm.) more or less. The term of the lease is twenty five (25) years, with a monthly rental of eighty four pesos (₱ 84.00) per square meter inclusive of value added taxes. The rate will be escalated every three years using the Gross National Product (GNP) for the last two immediately preceding years.

### **Leased Properties for Company-owned, Dealer-operated (CODO) Stations**

#### **Lease of Properties where CODOs are Located**

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

- The lease shall be for a term of fifteen (15) years, subject to renewal upon such terms and conditions as may be agreed upon in writing and signed by the parties.
  
- The Company shall pay monthly rentals, subject to annual escalation ranging from 5% to 10%, plus applicable real estate and government taxes.
  
- The leased premises may be occupied and used by the Company exclusively as a gasoline service station. The premises will include convenience stores, coffee shops, service bays and other facilities as

might be deemed appropriate for a gasoline service station and for no other purpose without the written consent of the lessors.

- The Company is expressly permitted to sublease the leased premises.

#### 4. Legal Proceedings

To date, there are no material legal proceedings, pending or threatened against the Company or any of its subsidiaries or in which the properties of the Company and any of its subsidiaries is the subject thereof.

## PART II - SECURITIES OF THE REGISTRANT

### (A) Market price of and Dividends on Registrant's common equity shares and Related Stockholders Matters

#### (1) Market Information

The Parent Company's common shares were listed and traded at the Philippine Stock Exchange ("PSE") starting on July 11, 2007. The high and low sale prices of each period for last three (3) fiscal years are hereunder shown:

Year 2010		Highest Close		Lowest Close	
Period		Price	Date	Price	Date
First Quarter		5.14	Jan-05	4.64	Mar-18
Second Quarter		5.14	Jun-29	4.79	May-25
Third Quarter		7.90	Sep-21	4.86	Jul-05
Fourth Quarter		13.80	Dec-15	6.80	Oct-13
Year 2009		Highest Close		Lowest Close	
Period		Price	Date	Price	Date
First Quarter		3.93	Mar-27	2.82	Feb-23
Second Quarter		3.64	Apr - 01	4.93	Jun-26
Third Quarter		4.86	Jul - 01	5.90	Aug - 04
Fourth Quarter		7.00	Dec - 29	5.10	Oct - 21
Year 2008		Highest Close		Lowest Close	
Period		Price	Date	Price	Date
First Quarter		5.40	Jan-02	4.00	Feb-07
Second Quarter		4.30	Apr-04	3.80	Jun-27
Third Quarter		4.00	Sep-26	2.50	Jul-02
Fourth Quarter		3.85	Oct-08	2.55	Oct-27

As of December 31, 2010, the market capitalization of the Company, based on the closing price of P 12.36, was approximately P 4.658 billion.

**(2) Top 20 Stockholders\***  
**As of January 31, 2011**

#	NAME OF STOCKHOLDER	No. of Common Shares	Percentage of Ownership
1	PHOENIX PETROLEUM HOLDINGS INC.	200,018,000	53.08%
2	PCD NOMINEE CORPORATION - (FILIPINO)	106,527,880	28.27%
3	UDENNA CORPORATION	50,322,986	13.35%
4	UDENNA MANAGEMENT & RESOURCES CORP.	12,740,000	3.38%
5	PCD NOMINEE CORPORATION - (NON-FILIPINO)	3,192,444	0.85%
6	DENNIS A. UY	1,574,664	0.42%
7	UDENCO CORPORATION	636,997	0.17%
8	DENNIS A. UY &/OR CHERYLYN C. UY	433,160	0.11%
9	DOMINGO T. UY	254,801	0.07%
10	EDGARDO ALVARADO ALERTA	216,720	0.06%
11	JOSE MANUEL ROQUE QUIMSON	140,000	0.04%
12	ROMEO B. MOLANO	94,696	0.03%
13	EMMANUEL M. CABUSAO	74,480	0.02%
14	CRISTINA C. PERTIERRA ITF MICHAEL PERTIERRA	67,200	0.02%
15	ZENAIDA CHAN UY	58,800	0.02%
16	REBECCA PILAR CLARIDAD CATERIO	58,562	0.02%
17	ORLANDO LANSANGAN	50,960	0.01%
18	SOCORRO ERMAC CABREROS	40,741	0.01%
19	ALBERTO D. ALCID	40,740	0.01%
20	JOSEPH ROY VINCENT B. UMALI	30,000	0.01%

\* disclosure based on records of the Stock Transfer Agent, BDO-Equitable Trust Co., as of January 31, 2011.

**(3) Dividends**

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

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

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

A cash dividend of ₱ 0.10/share was declared for all stockholders on record as May 30, 2008. Distribution date was June 26, 2008, amount was ₱ 14,500,000.00.

The Shareholders ratified last May 29, 2009 the Board of Directors approval for a 40% stock dividend. Details are as follows:

Ex-Date	July 03, 2009
Record Date	July 08, 2009
Distribution Date	August 03, 2009
No. of Shares Distributed	73,660,677 shares

On April 12, 2010, the parent Company disclosed a P 0.05 per share cash dividend. Details are as follows:

Ex-Date	July 12, 2010
Record Date	July 15, 2010
Payment Date	August 10, 2010
Total Amount	Php 13,656,430

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

#### **(4) Recent Sale of Unregistered Securities**

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

#### **(5) Re-acquisition/buy-back of its Own Securities**

Last September 21, 2007, the Board of Directors approved the buy-back program of the Company's common shares, worth a total of P50,000,000.00 or 5.15% of the Company's then market capitalization. Using PSE facilities, the program commenced on second week of October 2007. It will conclude upon exhaustion of the approved allotment subject to the proper disclosure to the SEC and the PSE. As of December 31, 2010 and December 31, 2009, treasury shares have cumulative costs of P -0- and ₱ 17,252,140 respectively.

The funds allocated for the repurchase of the shares was taken from the company's unrestricted retained earnings. The program was basically designed to boost up and/or improve the shareholders value through the repurchase of the shares whenever the same is trading at a value lower than its actual corporate valuation. The program did not involve any funds allotted for the company's impending expansion projects/investments nor any of those allotted for payment of obligations and liabilities.

**(B) Description of Shares**

The Company's shares consist of common shares with a par value of P1.00 per share. As of December 31, 2010 and January 31, 2011, total outstanding common shares with voting rights are shares are both 376,824,940.

**(C) Employee Stock Option Plan**

The Board of Directors approved the Employees' Stock Option Plan (ESOP) during its April 08, 2010 Board Meeting. In this ESOP, the Parent Company will allocate for award to eligible employees up to a total of 5% of its issued and outstanding common shares. The ESOP will be endorsed for approval by the shareholders in the incoming Annual Stockholders' meeting.



## PART III - FINANCIAL INFORMATION

### (A) Management's Discussion and Analysis of Financial Conditions

The following is a discussion and analysis of the Parent Company (PPPI) and its Subsidiaries' financial performance for the years ended December 31, 2010, 2009 and 2008. The discussion should be read in conjunction with the audited consolidated financial statements and the accompanying notes. **In the discussion of financial information, any reference to "the Company" means the Parent Company (PPPI) and its Subsidiaries.**

The selected financial information set forth in the following table has been derived from the Company's audited consolidated financial statements for the years ended December 31, 2010, 2009 and 2008.

The Company's financial statements were audited by Punongbayan & Araullo for 2010, 2009 and 2008, in accordance with Philippine Financial Reporting Standards.

In ₱ thousands, except for Per Share amounts	As of and for the years ended December 31		
	2008	2009	2010
<b>Income Statement Data:</b>			
Revenues.....	4,615,217	5,873,051	14,792,188
Cost of sales.....	4,194,196	5,181,074	13,476,620
Net income.....	150,289	751,477	427,214
<b>Balance Sheet Data:</b>			
Current Assets.....	1,457,228	2,918,843	4,870,681
Non-current Assets.....	910,853	2,084,570	2,770,591
Total Assets .....	2,368,081	5,003,413	7,641,272
Total Liabilities.....	1,677,323	2,661,182	5,180,064
Stockholders' Equity.....	690,758	1,528,860	2,461,208
Earnings per Share.....	0.91	3.48	1.43
Book Value per Share.....	3.75	5.76	6.53

## **Analysis of Results of Operations for 2010 and 2009**

### ***Revenues***

The Group generated total revenues of ₱14.792 billion in 2010 which is 152% higher than its comparative 2009 level of ₱5.873 billion. This was brought about by the 126% and 44% increase in sales volume of Petroleum Products and Lubricants respectively. Service revenue also posted an increase by 17% in volume of fuels handled in year 2010 compared to immediately preceding year.

Sales revenues from trading and distribution of petroleum products increased by 158% from ₱ 5.489 billion in 2009 to ₱ 14.204 billion in 2010 resulting principally from a wider distribution network and expanded institutional customer base. The 127% increase in volume is complemented also by the increase in average selling price by 13%, from Php 27.46 per liter in 2009 to Php 31.16 per liter in 2010.

PPPI had one hundred nine (161) operating Phoenix Fuels Life retail service stations as of December 31, 2010 compared to sixty-two (120) retail stations as of the same period of last year. A substantial number of these additional stations have yet to fully realize their potential peak sales volume, having been in operation for less than a year.

The Group generated ₱153 million from its fuels service (i.e. hauling and into-plane), lease of its storage facilities, Port Revenue and other service revenue in 2010 versus ₱ 101 million in 2009, or a 94% increase compared to last year. It includes revenue from port operation of ₱ 45 million and ₱39 million for 2010 and 2009 respectively on BIPC, the 2009 acquired wholly-owned subsidiary.

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

The Group recorded this year cost of sales of ₱13.477 billion, an increase of only 160% compared to the 2009 figure of ₱5.181 billion. The increase was triggered by the 127% increase in volume plus the higher average cost by 17%. Year 2010 average costs is 28.76 per liter compared to 24.68 in 2009 driven by higher average crude prices and sales mix factor.

Selling and administrative expenses increased as a result of the increasing volume and the ongoing expansion and growth of the Group's organizational build-out and business operations. Major items that increased out of this retail network expansion and increasing volume are rental, depreciation, travel and transportation, repairs, taxes and licenses and other expenses. The Parent

Company is also continuously doing branding and promotional campaign which resulted to higher advertising expenses to improve on brand awareness in the market.

### ***Net Income***

The Group's total net income is down to ₱427 million during year 2010 compared to P 751.5 million for 2009. In 2009, the Parent Company recognized a ₱573 million one-time gain representing non-recurring income due to the booking of the "excess of fair value over acquisition costs", or negative goodwill arising from the Parent Company's purchase of 100% of the capital of BIPC in March 2009. Core operating net income increased by an impressive 140% from Php 178 million in 2009 to Php 427 million in 2010.

### **BOI Registrations**

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. It has under application and has further plans to apply for new BOI incentives based on the additional investments in capacity it has made. Following are the recent registrations:

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

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

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

#### **BOI Registration for the New Investment in Downstream Oil Industry Activities-Davao Depot Expansion**

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

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

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

Under its registration, the Company is also entitled to certain tax and non-tax incentives as also mentioned in the above discussion.

### **Analysis of Financial Condition and Balance Sheet Accounts**

*(As of December 31, 2010 versus December 31, 2009)*

Total resources of the Group as of December 31, 2010 stood at ₱ 7.641 billion, an increase of 111% over the ₱5.003 billion as of December 31, 2009.

Cash and cash equivalents increased by 65% from ₱365 million to ₱605 million due to higher revenue level during the current year.

The Group's liquidity position continued to hold strong with Current Assets reaching ₱ 4.871 billion as of December 31, 2010, up from ₱ 2.919 billion as of December 31, 2009.

Trade and other receivables increased by 130%, from ₱1.369 billion as of December 31, 2009 to ₱2.593 billion as of December 31, 2010 as a result of the 152% increase in sales revenue in this year compared to last year. The Company continues to exercise prudence in its credit policies in order to manage customer receivables risk. The receivable is spread over a number of industries and a number of clients.

Inventories increased by 130%, from ₱ 458 million as of December 31, 2009 to ₱1,052 million as of December 31, 2010 as part of the Company's inventory management strategy. The Company maintains more or less one month of inventory to ensure stable supply in retail stations and commercial/industrial clients. In addition, in a period of rising fuel prices, it would be necessary to build commensurate levels of inventory to improve potential margins.

Land Held for Sales are parcels of subdivided lots owned by BIPC, a wholly owned subsidiary of the PPPI. These lots are intended for sale to prospective buyers. The reduction by 15% was a result of land sale during the year. Further, there are existing memorandums of agreements for purchase of lots with corresponding option money paid. There are also ongoing negotiations with other prospective buyers.

Due from related parties net balance is negative ₱38.4 million as of December 31, 2010 which is almost the same level as that of December 31, 2009. The

Company's parent holding company extended advances to support its cash requirement for its capital expenditures.

Other current assets as of December 31, 2010 are almost at the same level as that of December 31, 2009. These are prepayments on rentals on retail service stations and depot sites, creditable withholding tax and other various prepayments.

As of December 31, 2010, the Group's property and equipment, net of accumulated depreciation, increased to ₱2.358 billion compared to P 1.7 billion as of December 31, 2009 as a result of the Company's continuous expansion of retail service stations, Storage Facilities and Pier Expansion.

Land held for future developments are parcel of subdivided lot owned by the wholly owned subsidiary BIPC. These lots may be sold at its current state or be developed for better selling prices which will yield better returns to the Company.

Loans and Borrowings increased by 48% from total ₱2.318 billion as of December 31, 2009 to ₱3.427 billion as of December 31, 2010 due the increase short term loans and borrowings are related to the financing of the inventory build-up and accounts receivable trade gapping.

Trade and other payables increased by 55%, from ₱ 1.058 billion as of December 31, 2009 to ₱1.637 billion as of December 31, 2010 as a result of the inventory build-up of the Company using suppliers' credit. The increase in Other Payable was mostly payables to contractors and suppliers for construction of depots and retail stations.

Total Stockholders' Equity increased to ₱ 2.461 billion as of December 31, 2010 from ₱ 1.529 billion as of December 31, 2009 due to the P 427 million net income and the P 500 million worth of preferred shares issued in 2010. This however was minimized by P 13.6 million cash dividend.

## **Analysis of Results of Operations for 2009 and 2008**

### ***Revenues***

The Group generated total revenues of ₱5.873 million in 2009 which is 27% higher than its comparative 2008 level of ₱4.615 million. This was brought about by the 81% and 38% increase in sales volume of Petroleum Products and Lubricants respectively. Service revenue also posted a substantial increase triggered by the 78% increase in volume of fuels handled in year 2009.

Sales revenues from trading and distribution of petroleum products increased by 26% from ₱4.563 billion in 2008 to ₱5.739 billion in 2009 resulting principally from a wider distribution network and expanded institutional customer base. In

spite of the substantial increase in volume sales, the increase in absolute revenue was modest due to lower average unit selling prices this year. Current year average selling price per liter of refined petroleum products is ₱27.46 as compared to ₱38.66 per liter in 2008, or a 40.6% decline for fuels products selling prices.

PPPI had one hundred nine (120) operating Phoenix Fuels Life retail service stations as of December 31, 2009 compared to sixty-two (86) retail stations as of the same period of last year. A substantial number of these additional stations have yet to fully realize their potential peak sales volume, having been in operation for less than a year.

The Group generated ₱101 million from its fuels service (i.e. hauling and into-plane), lease of its storage facilities, Port Revenue and other service revenue in 2009 versus ₱ 52.3 million in 2008, or a 94% increase compared to last year. In addition, the company realized ₱39 million in revenue which was derived from consolidating the performance of BIPC, its recently-acquired wholly-owned subsidiary.

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

The Group recorded this year cost of sales of ₱5.181 million, an increase of only 24% compared to the 2008 figure of ₱4.194 million. The lower cost per unit offsets the 81% increase in the sales volume of petroleum products, thus the effective increase on absolute amount is not directly proportionate to the increase in sales volume.

Selling and administrative expenses increased as a result of the increasing volume and the ongoing expansion and growth of the Group's organizational build-out and business operations. Major items that increased out of this retail network expansion and increasing volume are rental, depreciation, travel and transportation, repairs, taxes and licenses and other expenses. Recently, the company had also ramped up its advertising campaign which resulted to higher advertising expenses.

### ***Net Income***

The Group's net income surged to ₱751.5 million during year 2009 compared to ₱150.3 million for 2008. Of this increase, ₱573 million represented non-recurring income due to the booking of the "excess of fair value over acquisition costs", or negative goodwill arising from the Parent Company's purchase of 100% of the capital of BIPC in March

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. It has under application and has further plans to apply for new BOI incentives based on the additional investments in capacity it has made over the past year.

### **Analysis of Financial Condition and Balance Sheet Accounts**

*(As of December 31, 2009 versus December 31, 2008)*

Total resources of the Group as of December 31, 2009 stood at ₱5.003 billion, an increase of 111% over the ₱2.368 billion as of December 31, 2008.

Cash and cash equivalents increased by 2% from ₱357 million to ₱365 million due to higher revenue level during the current year but minimized due to higher CAPEX payments.

The Group's liquidity position continued to hold strong with Current Assets reaching ₱2.914 billion as of December 31, 2009, up from ₱1.46 billion as of December 31, 2008.

Trade and other receivables increased by 79%, from ₱765 million as of December 31, 2008 to ₱1,368 million as of December 31, 2009 as a result of a higher sales revenue in this year compared to last year. The Company continue to exercise prudence in its credit policies in order to manage customer receivables risk.

Inventories increased by 194%, from ₱155 million as of December 31, 2008 to ₱458 million as of December 31, 2009 as part of the Company's inventory management strategy. In a period of rising fuel prices, it would be necessary to build commensurate levels of inventory to improve potential margins. This was made possible by the doubling of its storage capacity at the Davao Depot during the current year compared to year-end 2008. PPPI also inaugurated its new 50 million-liter terminal in Calaca, Batangas. In addition, it also leases a number of storage tanks in various sites to strengthen its inventory positioning. With the above increases in capacity PPPI was able to start gradually importing its fuel inventory requirement in 2009, which helped improve the company's stock levels and gross margin.

Land Held for Sales are parcels of subdivided lots owned by BIPC, a wholly owned subsidiary of the PPPI. These lots are intended for sale to prospective buyers. There is Memorandum of agreement on some lots to existing locators for intent to purchase.

Due from related parties net balance is negative ₱38.7 million as of December 31, 2009 versus ₱16.2 million positive balances as of December 31, 2008. The Company's parent holding company extended advances to support its cash requirement for its capital expenditures.

Other current assets increased by 57%, from ₱37 million as of December 31, 2008 to ₱58 million as of December 31, 2009 due to prepayments on rentals on retail service stations and depot sites, creditable withholding tax and other various prepayments .

As of December 31, 2009, the Group's property and equipment, net of accumulated depreciation, increased to ₱1.699 billion compared to ₱881 million as of December 31, 2008 as a result of the Company's continuous expansion of retail service stations and Storage Facilities. The acquisition of BIPC with its substantial assets which include Pier and Pier Facilities also boosted the fixed assets of PPPI.

Land held for future developments are parcel of subdivided lot owned by the wholly owned subsidiary BIPC. These lots may be sold at its current state or be developed for better selling prices which will yield better returns to the Company.

Loans and Borrowings increased by 157% from total ₱904 million as of December 31, 2008 to ₱2.318 billion as of December 31, 2009 due the increase of ₱717.3 million and ₱697.4 million on short term and long term financing respectively. The increase in short term loans and borrowings are related to the financing of the inventory build-up and accounts receivable trade gapping. The long term portion on the other hand was the installment payable to the vendor parties in the BIPC acquisition, net of payments made and the ₱245 million medium-term loans availed from banks to partially finance the Company's retail network expansion and depot facilities.

Trade and other payables increased by 41%, from ₱750 million as of December 31, 2008 to ₱1,059 million as of December 31, 2009 as a result of the inventory build-up of the Company mostly using suppliers' credit. The increase in Other Payable was mostly payables to contractors and suppliers for construction of depots and retail stations.

Total Stockholders' Equity increased to ₱1,529 million as of December 31, 2009 from ₱691 million as of December 31, 2008 substantially because of the one-time booking of ₱573 million arising from the acquisition of BIPC plus net income from operations of ₱178 million during the year.

## ***Review of 2008 versus 2007***

### ***Revenues***

The Company generated total revenues of ₱4.615 billion in 2008 which is 95.21% higher than its 2007 level of ₱2.364 billion, primarily due to substantial increase in sales volume of petroleum products and increase in revenues from fuels service and storage.

- Sales revenues from trading and distribution of petroleum products increased by over 97% from ₱2.315 billion in 2007 to ₱4.563 billion in 2008 resulting principally from a wider distribution network and expanded institutional customer base which resulted to 65% increase in volume. The average revenue per liter also increased to ₱38.66 in 2008 compared to ₱34.02 in 2007. The Company had eighty-six (86) operating Phoenix Fuels Life retail service stations as of December 2008 compared to thirty-three (33) retail stations as of December 31,



2007. The company will continue to open more stations during the year in 2009 and onwards.

- Income from fuel service and lease of its storage facilities rose from ₱48 million in 2007 to ₱52 million in 2008. This is a result 15% and 17% increase in service and storage volume respectively also contributed to the increase in revenue.
- Interest income from money market placements and interests charges advances to related parties totaled to ₱43.6 million in 2008 from ₱13 million in 2007 this is mainly due to better interest yield of money placements and the corresponding interest charges at market rate on the advances extended to related parties.

### ***Costs and Expenses***

The Company incurred total costs and expenses of ₱4.450 billion in 2008, a 97% increase against 2007's ₱2.253 billion.

Cost of sales in 2008 stood at ₱4.194 billion, close to 100% increase from 2007's ₱2.097 billion. The increase in volume accounts 67% of the net increase in cost of sales absolute amount, while the balance of 33% is the result of the increase in average selling prices. Sales Volume of Petroleum Products and Lubricants in 2008 increased by 66%, from 68 million liters in 2007 to 113 million liters in 2008. Average cost per liter also increased to ₱36.96 in 2008 compared ₱30.81 in 2007, a 20% increase on per unit cost.

Higher volume which accounts the increase variable Selling Expense like trucking and delivery costs, as well as the continuous expansion and growth of the Company's business operations resulted in higher total Selling and Administrative Expenses. In 2008, the company substantially has its presence in areas of Socksargen, Cotabato City and Maguindanao. It also has done trading activities in areas of Cagayan de Oro City and Cebu City. The Selling and administrative Expenses in 2008 is however lower by ₱0.05/liter compared to 2007 or by 2% on a per liter basis.

### ***Net Income***

As a result of the foregoing, the Company's net income increased to ₱150 million in 2008 from ₱122 million in 2007, a 23% growth compared to the immediately preceding year.

### ***Tax due***

The Parent Company was 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). One of the incentives under its

registration is the entitlement to an income tax holiday for five (5) years from November 16, 2005.

The tax income reported in 2008 and 2007 amounting to ₱5.83 million and ₱4.35 million respectively refers substantially to deferred tax income of subsidiaries relating to net operating loss carry over (NOLCO) during its pre-operating stage.

## **Financial Condition**

Total resources of the Company as of December 31, 2008 amounted to ₱2.370 billion, a growth of 99% as compared to ₱1.192 billion as of December 31, 2007. The improvement in its financial assets reflected the continuous growth and expansion of the Company's and working on its strategic directions as well as its overall outstanding performance.

Cash and cash equivalents increased by 213% from ₱114.2 million as of December 31, 2007 to ₱357.4 million as of December 31, 2008 this is due to the increasing sales of the company coupled by proper accounts receivable management.

The Company current ratio for the year ended December 31, 2008 may have been challenged as internally generated funds of the company out of its Earnings before Interest, depreciation and amortization (EBITDA) was utilized for its continuous expansion program. This however will be re-strengthened once the term-loan package with the Omnibus Credit Facility is drawn by the Company. This in effect reimburses the Company's Capital Expenditures (CAPEX) or a sort of refinancing of CAPEX. Current Assets however increased to ₱ 1,459 million as of December 31, 2008, up from ₱763 million as of December 31, 2007.

Trade and other receivables increased to ₱765 million as of December 31, 2008 versus ₱ 361 million as of December 31, 2007 as volume of sales soared. December 2008 sales volume, which is the bulk of the year-end receivables, was doubled compared to December 2007 level.

Inventories decreased by 12%, from ₱178 million as of December 31, 2007 to ₱156 million as of December 31, 2008 as a result of lower cost per liter compared to the same period of last year. The Company also maintained minimum inventory level due to the falling prices during the period.

Due from related parties decreased by 54% from ₱36 million as of December 31, 2007 to ₱16 million as of December 31, 2008 due to collection of advances, these were previously granted in support of initiatives geared towards seizing business opportunities to strengthen the Company's competitive position in the industry.

Restricted deposits increased to ₱80.6 million as of December 31, 2008 from ₱45 million as of December 31, 2007 due to additional restricted compensating deposits with the Company's commercial banks for additional credit line facilities and corresponding availments.

Net Input Taxes increased by 80% from ₱23 million in December 31, 2007 to ₱45.8 million in December 31, 2008 due to the accumulated Input taxes out of Capital Expenditures because of existing expansions and procurement of Inventories.

Other current assets increased to ₱37 million as of December 31, 2008 from ₱5.9 million as of December 31, 2007 due to increase in prepayments to include advance rental for lease of various properties for retail stations, terminal sites and other prepaid items. Portion of this said Other Current assets are Inventory of various supplies.

As of December 31, 2008, the Company's property and equipment, net of accumulated depreciation, increased to ₱881 million compared to ₱414 million as of December 31, 2007 as the Company continue with its expansion programs. The financial commitments were primarily in the establishment of additional petroleum retail network, acquisition of land/ construction of depot and terminaling facilities, increase in lorry and refueller tankers to support its logistical requirements and roll-out of the nationwide distributorship network of its Lubricants & Chemicals Division.

Other non-current assets increased to ₱18.9 million as of December 31, 2008 from ₱11 million as of December 31, 2007 due mainly to increase in various rental deposits on leased land for stations and depot/terminal sites.

Loans and borrowings under current liabilities primarily consist of liabilities under letters of credit and trust receipts and current portion of installment payable and mortgage payable. Liabilities under letters of credit and trust receipts increased by 135% from ₱330 million as of December 31, 2007 to ₱732 million as of December 30, 2008 due to higher volume of sales which is double if to compare the December 2008 VS. December 2007 volume. Installment payable and mortgage payable refers to the acquisition of land in strategic locations and service vehicles respectively. Installment payable on land was pre-terminated this March 2009.

Trade and other payables increased to ₱750 million as of December 31, 2008 compared to ₱169 million as of December 31, 2007. Increase in Trade Payable was due to increase in volume of sales which purchases has term of an average of forty-five (45) days. While, other payable increased due to outstanding payables on the costs of construction of Depot/Terminal facilities and Retail service stations. These payables will be partly financed by the term-loan packaged under the Omnibus Credit facilities signed with the syndicate of banks lead by Security Bank Capital.

Loans and borrowings under non-current liabilities substantially refer to installment payable on the acquisition of land and mortgage payable for acquisition of service vehicles. This stood at the level of ₱88 million as of December 31, 2008. The land purchased in these strategic locations has either been constructed depot in 2008 or construction of depot/terminal is nearing completion. The bulk of the amount is due to Bacnotan Industrial Park Corporation (BIPC), from which the Company bought some 35,000 square

meters of land and payable over a period of Five (5) years until March 1, 2012. This installment payable with BIPC was however pre-terminated last March 2009.

Total Stockholders' Equity increased to ₱691 million as of December 31, 2008 from ₱567 million as of December 31, 2007 due to net profit of the Company for the year, net of the Cash Dividend declared and paid amounting to ₱14,500,000.00 or ₱ 0.10/share.

## Cashflow

Net Cash outflow from operating activities in 2008 amounted to ₱334 million as a result of the year's Earnings before Interest depreciation and amortization. The Company was also able to utilize properly the suppliers' credit for both on its purchases of supplies and on its Capital Expenditures and move aggressively to increase sales as well as proceed with its expansion program.

Cash flow used in investing activities amounted to ₱489 million. This reflects the Company's additional investments and expansion in Phoenix Fuels Life petroleum retail network, depot/terminal facilities, and increase in lorry and refueller tanker to support its logistic needs, and further roll-out of the nationwide distributorship network of its Lubricants & Chemicals Division.

Cash provided from financing activities amounted to ₱399 million primarily due to working capital financing availed from the bank in form of Letters of Credit (L/C) and Trust Receipts (T/R). The above is however net to the dividend payout and acquisition of additional treasury shares as part of its approved ₱50,000,000 Company buy-back program.

## Top Five (5) Key Performance Indicators

The Company's top five (5) key performance indicators and how they are computed are listed below:

	2010	2009	2008
Current Ratio <sup>1</sup>	1.1	1.1	0.92
Debt to Equity <sup>2</sup>	2.1	2.27	2.43
Return on Equity <sup>3</sup>	21.41%	67.71%	24%
Net Book Value Per Share <sup>4</sup>	6.53	5.76	3.75
Earnings Per Share <sup>5</sup>	1.43	3.48	0.91

### Notes:

1 - Total current assets divided by current liabilities

2 - Total liabilities divided by tangible net worth

3 - Net income divided by average total stockholders' equity

4 - Total stockholders' equity divided by the total number of shares issued and outstanding

5 - Net income after tax divided by weighted average number of outstanding common shares

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

The Company current ratio for the last two years has been steady at 1.1 : 1 coming from 0.92:1 in the year ended December 31, 2008. The lower DE in 2008 was the result when the internally generated funds of the Company out of its Earnings before Interest, depreciation and amortization (EBITDA) were utilized for its continuous expansion program. This however improved in 2009 and in current year with refinancing of these Capital Expenditures via medium term loan.

### **Audit and Audit-Related Fees**

The financial statements of the Company were audited by Punongbayan & Araullo for the years ended December 31, 2010 and 2009, and for the year ended December 31, 2008. Said external auditor has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and the Professional Regulation Commission.

### **(B) External Audit Fees and Services**

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

#### **Audit and Related Fees**

		Amount in Thousands Php		
Particulars	Nature	2008	2009	2010
Punongbayan and Araullo	Audit of FS for the year 2007 - Parent and Subsidiaries	725.0		
Punongbayan and Araullo	Audit of FS for the year 2008 - Parent and Subsidiaries		1,276	
Sycip, Gorres and Velayo	Audit of FS for the year 2008-Subsidiary	442		

Punongbayan and Araullo	Audit of FS for the year 2009 - Parent and Subsidiaries			2,098
<b>Sub-total</b>		<b>1,147</b>	<b>1,276</b>	<b>2,098</b>
<b>Tax Advisory Services</b>				
Sycip, Gorres and Velayo	Tax Consultancy	107.5	116.5	88
<b>Sub-total</b>		<b>107.5</b>	<b>116.5</b>	<b>88</b>
<b>All Other Fees</b>				
Entia Accounting Office	Professional Fee for BOI Registration of Depot Facilities		96.4	211.8
<b>Sub-total</b>			<b>96.4</b>	<b>211.8</b>
<b>GRAND TOTAL</b>		<b>1,254.5</b>	<b>1,488.9</b>	<b>2,397.8</b>

In 2007, the Company has formed its Audit Committee as part of its Code of Corporate Good Governance.

The Internal Audit systems are being improved with consultancies from practitioner and bringing on board an Internal Auditor Manager.

For the 2010 year-end audit, it is the Board of Directors which sets the audit policies in accordance with Philippine Accounting Standards and Philippine Financial Reporting Standards.

#### **Changes In And Disagreements With Accountants**

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

## **PART IV – MANAGEMENT AND CERTAIN SECURITYHOLDERS**

### **(A) Directors and Executive Officers of the Registrants**

The Company's members of the Board of Directors are herewith described below with their respective experiences.

#### **(1) Directors**

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

**Domingo T. Uy**, Filipino, 64 years old, is a co-founder and has been a member of the Board of Directors of the Company since 2002. Mr. Uy was elected Chairman of the Board of Directors of the Company on February 15, 2007. Likewise, he is the Chairman of Granscor Corporation, a holding company of the Uy brothers engaged in real estate, mining and commodities trading. He is also a Director of Granland Resources Corporation, a corporation involved in real estate development, and Aquamines, Philippines, a firm engaged in prawn farming. Mr. Uy is currently involved in socio-civic programs and is a Director of the Philippine National Red Cross, Davao Chapter. He is also the Past President of the Davao City Sta. Ana Lions Club and the Kang Ha Uy Association, Davao Chapter.

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

**Dennis A. Uy, Filipino**, 37 years old, is the founder of the Company and has served as President and Chief Executive Officer since inception. He is currently the Chairman of the Board of Directors of Phoenix Petroleum Holdings, Inc., the holding company of the Company and Udenna Corporation, the ultimate parent entity of the Company. Mr. Uy is also the President and Chief Executive Officer of Udenna Management & Resource Corp. and its subsidiaries namely: Chelsea Shipping Corporation, Global Synergy Trade and Distribution Corporation, Udenna Development Corporation (UDEVCO), Value Leases Inc. and Udenna Foundation, Inc. In addition, he was an Independent Director of Transpacific Broadband Group, International, a publicly-listed firm. Mr. Uy is also a Member of the Management Association of the Philippines (MAP), the American Chamber of Commerce, Davao Chapter, the Davao City Chamber of Commerce and a Business Sector representative to the Chinatown Development Council in Davao. He was also Past-President of Apo Golf & Country Club and was a Director of Elias Lopez Sports Foundation. Mr. Uy holds a Bachelor of Science Degree in Business Management from the De La Salle University.

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

**Romeo B. De Guzman**, Filipino, 62 years of age, is currently the Chief Operating Officer of the Company. Mr. De Guzman has thirty-five (35) years of experience in the oil industry, covering retail, commercial, operations, distribution, finance, and corporate affairs. Prior to joining the COMPANY, Mr. De Guzman was the former Vice President-External Affairs for Asia Pacific of Shell, directly reporting to London, from 2004 to 2006. He was with Pilipinas Shell for twenty-five (25) years and served in various positions nationwide. National Accounts Manager from 1982 to 1983, Mindanao District Manager-General Sales from 1983 to 1986, later on as Retail Regional Manager for Metro Manila from 1986 to 1988 and he was later on appointed as Retail Regional Manager for Visayas and Mindanao from 1988 to 1991. From 1991 to 1994, De Guzman served as the Area Manager for North Luzon of Pilipinas Shell, until he was appointed GM/Vice President for Sales – Philippines and North Pacific Islands from 1995 to 2003. He also had attended various management and leadership courses in London, The Hague, and in other Asian countries. Mr. De Guzman also worked with Getty Oil Philippines Inc. for ten (10) years, holding various positions in retail and sales in the said company. Mr. De Guzman completed his Masters in Business Administration at San Sebastian College Manila. He holds a degree in Bachelor of Science in Commerce, Major in Management-Marketing also in San Sebastian College Manila.

**Jose Manuel R. Quimson**  
**Director, Vice President/Treasurer**

**Jose Manuel R. Quimson**, Filipino, 61 years old, is Vice President and Treasurer of the COMPANY. He was elected to the Company's Board of Directors on February 15, 2007. He is also the Vice President & Chief Operating Officer of Chelsea Shipping Corp. Currently, Mr. Quimson is a member of the Board of Directors of the Udenna Corporation and its subsidiaries. Previously, he was President of Petrotrade Philippines, Inc. a company providing bunkering services to international vessels. Mr. Quimson was also Vice Chairman of Herma Shipyard, Inc., a company engaged in the business of ship building, repair, port terminal services and fabrication. He also worked as President of Transman Shipping Corporation, operators of cargo vessels for inter-island shipping and the Transport Managers, Inc. a company engaged in customs brokerage, freight forwarding, general transport and heavy lift handling. Mr. Quimson was also the Managing Director of Delbros Group of Companies, where he started his professional career in 1970 as Financial Analyst. Mr. Quimson has more than 30 years of work experience in the shipping industry. He is a graduate of the MBA Program of the Ateneo de Manila University Graduate School of Business in 1972 and completed the first year of the MBM Program at the Asian Institute of Management. He holds a Bachelor of Arts Degree from the Ateneo De Manila University.

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



**Atty. Socorro T. Ermac Cabrerros**, 45 years old, is currently Asst. Vice President for Corporate Legal of the Company. She is also Corporate Secretary of the Company since February 15, 2007. She is likewise appointed as Corporate Secretary and member of the Board of Directors of Udenna Corporation and its subsidiaries. Prior to joining the Company, Atty. Ermac-Cabreros was a Legal Counsel of Philippine National Bank in Davao City where she handled and managed the various legal cases of the branches in Southern Mindanao particularly in the areas of General Santos City and the provinces of Davao del Norte and Davao Oriental. Atty. Ermac-Cabreros has also worked for various government agencies such as Office of the Ombudsman for Mindanao and later as Prosecutor for the Province of Davao del Norte after engaging in the private practice of law. She holds a Bachelor of Science Degree Major in Behavioral Science from Maryknoll College Foundation, Inc. and finished her law degree at the Ateneo de Davao University College of Law. She is also an active member of the Integrated Bar of the Philippines, and is currently the President of the Davao City Chapter. Atty. Ermac-Cabreros has over 20 years experience in the practice of law rendering legal opinions and consultation and handling and management of criminal, civil and administrative cases including investigation, litigation and prosecution.

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

**J.V. Emmanuel A. De Dios**, Filipino, 44 years old, was initially elected as Independent Director of the Company on February 15, 2007. He was elected as a regular director last March 7, 2008. He is the President and CEO of Nido Petroleum Philippines, Pty Ltd. and Atty. De Dios served previously as Chairman of the Philippine National Oil Company, Exploration Corporation. Prior to PNOC-EC, Atty. De Dios was the Undersecretary of the Philippine Department of Energy where he supervised the Department's Planning Bureau and Administration, and Downstream Oil and Gas Industry. He was also an Associate of Romulo Mabanta Buenaventura Sayoc & De Los Angeles Law Office where he practiced Corporate, Commercial, Energy and Securities Law. Atty. De Dios also worked under former Chief Justice Hilario G. Davide, Jr. as a Senior Law Clerk where he engaged in legal research and drafting decisions. He also took time to be a Contributor of the Philippine Daily Star, responsible for reporting on the U.S. System of legal education and law practice. Atty. De Dios was also a professor at the St. Scholastica's College and a Senior Instructor at the University of the Philippines where he taught cost accounting and business law. He is an active member of the Integrated Bar of the Philippines where he served as Director for the KAMANAVA Chapter. He is also a member of the Council of Advisers at the Harvard Law School Club of the Philippines. Atty. De Dios took his Master of Laws at the Harvard Law School and completed his Bachelor of Laws at the Ateneo de Manila University School of Law. He holds a Bachelor of Science degree in Business Administration from the University of the Philippines.

**Diana Pardo Aguilar**  
**Director**

**Diana Pardo Aguilar**, Filipino, 47 years old, is a business management professional who has extensive experience in board directorships (22 years), entrepreneurship (nine years), and investment banking (13 years). Her board directorship includes Philippine Seven Corporation, a licensee of the famous brand 7-11 convenience stores and a publicly-listed company in the Philippine Stock Exchange (PSE). She is also a member of the Board Directors and Treasurer for Wenphil Corporation, the Philippine franchise holder of the globally-renowned food brand Wendy's Hamburger that is present in leading shopping malls and town centers in the Philippines. She currently sits as Board Director in seven (7) other firms and institutions engaged in asset and real property management, education, information technology, telecommunication and technology transfer. Ms. Pardo-Aguilar possesses a wide experience in investment banking, which she gained from her various stints such as: CLSA Exchange Capital Corporation, a leading Philippine investment house specializing in corporate finance, stock brokering and investment management; Vice-President for Exchange Capital Corporation and Jardine Fleming Exchange Capital Corporation. She holds a Masters Degree in Business Administration major in International Business and graduated with academic citations from Pepperdine University in Sta. Monica California. She is also a Computer Science graduate from the De La Salle University.

**Ricardo S. Pascua**  
**Independent Director**

**Ricardo S. Pascua**, Filipino, 62 years old, was elected Independent Director of the Company on February 15, 2007 and currently serves in the same capacity for various corporate and foundation boards. He retired from active employment but sits as Chairman of the Board of Readyfoods Manufacturing Corporation, a manufacturer of ready-to-eat foods. Mr. Pascua is also the Chairman of the Facilities and Property Management Technologies, Inc., the Biometrix Technology Philippines Corporation, which distributes IP-based security and communications systems. Prior to his retirement, Mr. Pascua was the Vice Chairman, President and Chief Executive Officer of the Metro Pacific Corporation, where he was tasked to refocus Metro Pacific as a premier property holding and development company in the Philippines. He was the Executive Director of the First Pacific Company Limited involved in setting overall group policy and strategic direction. As part of his investment oversight duties, he served in companies such as SMART Communications, Inc., the United Commercial Bank in San Francisco, CA, the First Pacific Bank in Hong Kong, and the 1<sup>st</sup> eBANK in Manila. Mr. Pascua oversaw the preparation and initial execution of the Master Development Plan when he was Vice Chairman, President and Chief Executive Officer of Fort Bonifacio Development Corporation, now known as the Bonifacio Land Corporation. Mr. Pascua completed his Master in Business Management from the Asian Institute of

Management. He graduated with a Bachelor of Arts Degree Major in Economics, Cum Laude, from the Ateneo de Manila University.

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

**Monico V. Jacob**, 65 years old, was elected as Independent Director of the Company on March 7, 2008. He is at present the President and Chief Executive Officer of the STI Education Services Group, a network of over 100 colleges and educational centers in the Philippines. Concurrently, Mr. Jacob also sits as Chairman and Managing Partner of CEOs, Inc., a business and management consultancy Firm; Chairman of Global Resource for Outsourced Worker, Inc., a professional placement company for healthcare and ICT workers. His areas of specialty include energy, corporate law, corporate recovery and rehabilitation work. Prior to his present positions, Mr. Jacob was Chairman and Chief Executive Officer of Petron Corporation. As Chairman, he presided over its privatization and implemented and led the partnership of the government with Saudi Aramco in Petron. He also presided over the Initial Public Offering (IPO) of Petron shares which has since been hailed as the most successful IPO offering in the country. He retired from Petron at the close of the President Fidel V. Ramos presidency in July 1998. He was also Chairman and CEO of Philippine National Oil Company (PNOC) and all of its subsidiaries. As Chairman of the PNOC, he presided over the privatization of the PNOC Dockyard and Engineering Corporation. Prior to joining the government, Mr. Jacob was Partner of the law firm of Jacob Acaban Corvera Valdez and Del Castillo and was an active trial lawyer. He is a member of the following group: Management Association of the Philippines (MAP) where he served as President for 1998; Board of FINEX; Integrated Bar of the Philippines. Mr. Jacob finished his Bachelor of Arts degree with a Major in Liberal Arts from the Ateneo de Manila University in 1971.

**(2) Other Executive Officers**

**Joseph John L. Ong**, Filipino, 51 years old, married, is the **Chief Finance Officer** of the Company. Prior to his employment in the Company, he spent almost ten (10) years at Primeworld Digital Systems, Inc. (Pacific Internet Phils.) initially as Vice President and CFO and eventually as Executive Vice President – Operations and Chief Finance Officer from 2008 - 2009. He also worked for twelve (12) years with Ginebra San Miguel, Inc. (then known as La Tondea Distillers, Inc.), then the country's 2<sup>nd</sup> largest beverage company and a listed subsidiary of San Miguel Corporation. He was its Vice President – Treasury from 1995 – 1999, at which time he headed the team that took the company public in 1994 and was primarily responsible for institutional-investor relations. Prior to the San Miguel Group, he held various positions at the Bank of the Philippine Islands & Ayala Investment & Development Corp. (before it merged with BPI) from 1980-1986. He received his Bachelor of Science in Commerce from De La Salle University in 1980.

**Chryss Alfonsus V. Damuy**, Filipino, 37 years old, is the **Vice-President for Finance and the Comptroller** of the COMPANY. Prior to his employment with the Company, he was the Controller of Lapanday Foods Corporation and held various positions in its subsidiaries including the Lapanday Packaging Inc as Controller, Lapanday Diversified Products Corp as Controller, Fresh Asia Produce as Accounting Manager and the Mindanao Fresh Produce Services Corporation as Assistant Accounting Manager. He also worked as Chief Accountant of the Regional Educators Multi-purpose Cooperative and as its Branch Officer. Mr. Damuy started his professional career as College Instructor of the Holy Cross of Davao College where as a dean's lister, he earned his Bachelor of Science Degree in Accountancy in 1997. Mr. Damuy is a Certified Public Accountant.

**Alan Raymond T. Zorrilla**, Filipino, 41 years of age and is currently appointed as the **Asst. Vice President for Human Resources and Corporate Affairs and Branding**. Prior to his employment with the Company, he was Chief Legal Counsel of Unioil Group of Companies. He also sat as Director for Freeport Services Corporation, as 100% subsidiary of Subic Bay Metropolitan Authority. Atty. Zorrilla was engaged in the litigation practice with Pangilinan Britanico Sarmiento And Franco Law Offices, a Makati-based Law Office before his engaging into Corporate Practice. Atty. Zorrilla is a graduate of the San Beda Law School in 1994.

**Edgardo A. Alerta**, Filipino, 56 years old, is the **Assistant Vice President for Sales for Visayas and Mindanao**. Prior to joining the COMPANY, Mr. Alerta served as Municipal Councilor of the Municipality of Matanao, Davao Del Sur, Philippines. He worked with Pilipinas Shell Petroleum Corporation for 15 years where he started as a Marketing Sales Executive and later progressed to District Sales Manager. He also worked as a Technical Services Engineer of Getty Oil Philippines and was an Energy Examiner of the Department of Energy. Mr. Alerta, who is a licensed Mechanical Engineer, has more than 25 years work experience in the energy and petroleum industries from the government and multinational corporations. He holds two degrees in Engineering: Bachelor of Science Degrees Major in Mechanical Engineering and Electrical Engineering from the Cebu Institute of Technology.

**Alberto D. Alcid**, Filipino, 55 years old, is the **Assistant Vice President for Lubes and Chemicals** of the COMPANY. Mr. Alcid started his professional career in the petroleum industry with Caltex Philippines, Inc. as a Sales Representative. He later became the Regional Manager for the Visayas and Mindanao where he strengthened the market position of Caltex in those regions. He was later promoted as the National Manager for Lubes and Greases of Caltex Philippines where he lead the integration of the manufacturing and marketing operations of lubes and greases and strengthened the market position of the brand in the retail, commercial and high street trades. Mr. Alcid holds a Bachelor of Science Degree Major in Mechanical Engineering from the De La Salle University.

**Rebecca Pilar C. Caterio**, Filipino, 39 years old, is currently the Assistant Vice President for Credit and Collection of the Company. Previously, she was the Controller of Lapanday Packaging Inc., a company engaged in the manufacturing of cartons and in the production of fresh pineapple and vegetable. She was also the Accounting Manager of Fresh Asia Produce Company International Corporation, a company which is also owned by the Lapanday Group and is primarily engaged in the trading and marketing of bananas. Ms. Caterio started her professional career with the SGV & Co. as a Staff Auditor. She is a Certified Public Accountant and a member of the Philippine Institute of Certified Public Accountants (PICPA) since 1993. Ms. Caterio holds a Bachelor of Science Degree in Commerce, Major in Accounting from the Ateneo De Zamboanga.

**Carlito V. Cruz**, Filipino, 55 years old, is currently the **Assistant Vice President for Luzon Commercial Sales** of the Company. Prior to his employment with the Company, he served as the Senior Account Sales executive of Petron Corporation for 16 years. He had also been the Technical Engineer of the same company for 5 years. He had a short stint as a Production Supervisor for 2 years at the Imperial Textile Mills (ITM) He started his career as a Laboratory Analyst with Philippine Ink Corporation. Mr. Cruz is a licensed Chemical Engineer and earned his degree at the Adamson University.

**Reynaldo A. Phala** Filipino, 44 years old, is the **Assistant Vice President for Treasury**. He joined the Company on October 16, 2008 as its Credit and Collection Manager. Before joining the Company, he was with various banks for seventeen (17) years. He also worked with the Department of Trade and Industry as Municipal Trade and Industry Officer for a year. He is a graduate of Bachelor of Science in Civil Engineering from the Mindanao State University-General Santos City. Mr. Phala is a licensed Civil Engineer having passed the Civil Engineering Licensure Examination last May 1989.

**Jose Victor L. Cruz**, Filipino, 50 years old, is currently the **Assistant Vice President for Retail Luzon**. Mr. Cruz has more than twenty-five (25) years of experience in the oil industry covering retail, commercial, lubricants sales, international business (aviation and shipping for Chevron and Texaco), marketing and distribution, and corporate affairs. Prior to joining the Company in 2010, Mr. Cruz was Vice President for Retail Network Operations of Flying V in 2008 before he was promoted to Chief Operating Officer in 2009. He was COO of Citadel Commercial, Inc. from 2001-2002 before he ventured into private enterprise. He held various positions in Caltex Philippines Inc. from 1983 up to 1991 when he handled CPI's International Business. Eventually, Joey was appointed Executive Assistant – Marketing Commercial in 1992. In 1994, he held the position of District Manager – Luzon South Commercial and in 1996, as DM – Luzon Retail, this area being the highest growth region in the country. He was sent to Bangkok, Thailand to observe oil deregulation in action. When the oil deregulation law was enacted, Total Petroleum Philippines Inc. entered the Philippine market and Mr. Cruz joined them as General Manager for Retail. He received training in operations and marketing in France, convenience retailing in England and retail operations and network development in South Africa. Mr. Cruz has completed his MBA curriculum at the De La Salle University. He is a graduate of B.S. Industrial Management Engineering, Minor in Mechanical Engineering and is a

Professional Industrial Engineer under the Philippine Institute of Industrial Engineers.

**William M. Azarcon**, Filipino, 64 years old is currently the **Asst. Vice President for Operational Engineering and Logistics**. Mr. Azarcon has twenty-six (26) years experience in the oil industry, covering engineering operations, retail and distribution of bulk & packed products nationwide. Mr. Azarcon used to work for Pilipinas Shell Petroleum Corporation and served as Field Engineer in Operations nationwide constructing Depots & related facilities, i.e, jetties, submarine pipelines, bulk storage tanks among others. He held various positions in operations as Superintendent of Poro Installation- the biggest installation of Shell outside Pandacan. He likewise served as Head of Operations of North Luzon and transferred to Retail Engineering as Retail Engineering Manager nationwide. He also served as RVI (Retail Visual Identity) Manager. Mr. Azarcon attended training in engineering courses in Japan, Australia & New Zealand and in different countries in Southeast Asia. After retiring from Shell, Mr. Azarcon engaged in business as Retail Engineering Contractor of Shell. He holds a degree in Bachelor of Science in Mechanical Engineering from Mapua.

**Gigi Q. Fuensalida**, Filipino, 33 years old, is presently the **Assistant Corporate Secretary** of the Company. Prior to her employment with the Company, she was one of the Senior Associates of the Villaraza Cruz Marcelo and Anganco Law Office. For six years, Atty. Fuensalida specialized in Civil, Commercial and Criminal Litigation wherein she developed strategies for complex litigation and actively participated in the prosecution and defense of criminal cases before the regular trial courts, quasi-judicial bodies and the appellate courts. She started her professional career as an apprentice in the Gaviola Law Offices back in May 2000. Atty. Fuensalida holds a degree in Bachelor of Arts Major in Political Science from the Ateneo de Manila University. She further obtained her Juris Doctor degree from the same institution and graduated with honors in 2002. Atty. Fuensalida is a member of the Integrated Bar of the Philippines since 2003.

**Alejandro U. Suan**, Filipino, 47 years old, is currently the **Manager of Depot Operations and Logistics** of the Company. Prior to his employment with the Company, he worked with Paramina Earth Technologies, Inc. where he started as General Foreman and later progressed to General Manager. Mr. Suan also worked for Atlas Mining, Inc. in both Mining Operations and Marketing and Sales. He holds a Bachelor of Science Degree in Mining Engineering from the Cebu Institute of Technology and is a licensed Mining Engineer. Mr. Suan has over 18 years work experience in the mining industry.

**John Henry C. Yap**, Filipino, 36 years old, is currently the **Trading and Supply Manager** of the Company since 2009. Mr. Yap manages the supply function for the company's requirement for Petroleum products, coordinates and monitors the operational aspect of all importation in Batangas and Davao and reviews product availability and/or pricing information with suppliers, sales and customers. Prior to his employment with the Company, he worked as a Purchasing Manager for Golden Forum Land Inc. for about a year and also became the Supply Manager

of Oilink International Corp. for four years. Mr. Yap started his professional career with Unioil Petroleum Philippines, Inc. as a Purchasing Manager for five years and eventually became their Lubricants Supply Manager. Mr. Yap has a Bachelor degree in Industrial Engineering from De La Salle University and further acquired his Masteral Degree in Business Administration from the Ateneo Graduate School of Business.

### **(3) Significant Employees**

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

### **(4) Family Relationships**

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

### **(5) Involvement in Certain Legal Proceedings**

To the best of the Company's knowledge there has been no occurrence during the past five years of any of the following events which are material to an evaluation of the ability or integrity of any director, person nominated to become a director, executive officer, or control person of the Company:

- Any insolvency or bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the insolvency or within two years prior to that time;
- Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- Any final and executory order, judgment, or decree or any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and
- Any final and executory judgment by a domestic or foreign court or competent jurisdiction (in a civil action), the SEC, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

## (B) Executive Compensation

### (1) Executive Compensation

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

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

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

### *Summary of Compensation Table*

Compensation of Executive Officers and Directors (in thousand Pesos)				
Name	Principal Position	Salaries (in ₱)	Bonuses / 13 <sup>th</sup> Month / Other Income (in ₱)	Total (in ₱)
<u>Domingo T. Uy</u>	<u>Chairman</u>			
<u>Dennis A. Uy</u>	<u>President and Chief Executive Officer</u>			
<u>Romeo B. De Guzman</u>	<u>Chief Operating Officer</u>			
<u>Francis Donald A. Caluag</u>	<u>Chief Finance Officer</u>			
<u>Edgardo A. Alerta</u>	<u>Assistant Vice President for Sales in Mindanao</u>			
<u>Alberto D. Alcidi</u>	<u>Assistant Vice President for Lubes and Chemicals</u>			
<u>Jose Manuel R. Quimson</u>	<u>General Manager of Manila Operations</u>			
<u>Alan Raymond T. Zorrilla</u>	<u>Asst. Vice President-Corporate Affairs and OIC Human Resource</u>			
<u>Alejandro U. Suan</u>	<u>Manager of the Davao Depot Operations and Logistics</u>			
<u>Socorro T. Ermacabreros</u>	<u>Corporate Secretary and Director of Corporate Legal</u>			
<u>Chryss Alfonsus V. Damuy</u>	<u>Comptroller</u>			



<u>Rebecca Pilar C. Caterio</u>	<u>Treasury Manager</u>			
<u>Rey A. Phala</u>	<u>Credit and Collection Manager</u>			
<b>Total 2010</b>				<b>₱ 30,438</b>
<b>Total 2009</b>				<b>₱ 24,290</b>
<b>Total 2008</b>				<b>₱ 21,828</b>
<b>Estimates in 2011</b>				<b>₱ 35,000</b>

**(C) Security Ownership of Certain Beneficial Owners and Management**

As of **January 31, 2011** the security ownership of management is as follows:

<b>Title of Class of Securities</b>	<b>Name/Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Citizenship</b>	<b>% of Ownership</b>
<b>Directors:</b>				
Common	Dennis A. Uy Penthouse Valero Tower, 122 Valero St., Salcedo Village, Makati City	1,574,664  direct beneficial owner	Filipino	0.42%
Common	Dennis A. Uy &/or Cherylyn C. Uy Penthouse Valero Tower, 122 Valero St., Salcedo Village, Makati City	433,160  direct beneficial owner	Filipino	0.11%
Common	Domingo T. Uy Insular Village Phase II, Lanang, Davao City	254,801  direct beneficial owner	Filipino	0.07%
Common	Romeo B. De Guzman Hillsborough, Alabang Village, Muntinlupa City	505,400  direct beneficial owner	Filipino	0.13%
Common	Socorro T. Ermac Cabrerros 223 V. Mapa St., Davao City	40,741  direct beneficial owner	Filipino	0.01%

Common	Jose Manuel R. Quimson 28 Osmeña St., Xavierville Subd., Loyola Heights, Katipunan, Quezon City	140,001  direct beneficial owner	Filipino	0.04%
Common	J.V. Emmanuel A. De Dios 95 A. Melchor St., Loyola Heights, Quezon City	70,001  direct beneficial owner	Filipino	0.02%
Common	Ricardo S. Pascua 16 Solar St., Bel-Air III, Makati City	1  direct beneficial owner	Filipino	0.00%
Common	Monico V. Jacob 7 <sup>th</sup> flr Philippine First Bldg, 6764 Ayala Ave., Makati City	1  direct beneficial owner	Filipino	0.00%
Common	Diana Pardo-Aguilar 205 Cadena de Amor Street Ayala Alabang Village Muntinlupa City	1  direct beneficial owner	Filipino	0.00 %

**Senior Management:**

Common	Joseph John L. Ong 80 Pola Bay, Southbay Gardens, Parañaque City	93,300  direct beneficial owner	Filipino	0.02 %
Common	Chryss Alfonsus V. Damuy Ph2 Blk 07 Lot 07, Wellspring Highlands Subd. Catalunan Pequeno Davao City 8000	28,000  direct beneficial owner	Filipino	0.00%
Common	Alberto D. Alcid Doña Socorro St.,	40,740	Filipino	0.01%

	Belisario Heights Subd., Lanang, Davao City	direct beneficial owner		
Common	Edgardo A. Alerta Arellano St., Davao City	216,720	Filipino	0.05%
		direct beneficial owner		
Common	Rebecca Pilar C. Caterio Margarita Village, Bajada, Davao City	58,562	Filipino	0.01%
		direct beneficial owner		
Common	Gigi Q. Fuensalida 155 Brillantes St. 5th Avenue, Caloocan City	28,000	Filipino	0.00%
		direct beneficial owner		
Common	Reynaldo A. Phala Block 5 Lot 20 Pioneers Village	14,000	Filipino	0.00%
		direct beneficial owner		

The other executive officers of the Company, Raymond T. Zorilla, Carlito V. Cruz, Jose Victor L. Cruz, William M. Azarcon, John Henry C. Yap do not own shares in the Company.

#### **(D) Certain Relationships and Related Transactions**

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

##### ***a.) Rentals***

The Group has an operating lease agreement with Udenna Corporation, the ultimate parent Company. Total rent expense incurred in the years 2010, 2009 and 2008 is P7.3 million, P3.8 million and P4.8 million, respectively and is presented as part of Rent expense in the profit or loss Recognition is on a straight-line basis over the duration of the lease contract in compliance with Philippine Accounting Standards 17 (PAS 17).

##### ***b.) Contract of Affreightment***

The Company entered into a Contract of Affreightment with Chelsea Shipping Company, a related party, to haul the Company's petroleum supplies.

***c.) Due to and Due from Related Parties***

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

The breakdown of due from related parties as of December 31, 2010 and 2009 is as follows:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
<b>Due to Parent Company</b>				
Balance at beginning of year	P	-	P	2,937,730
Additions		-		
Collections		-		(2,937,730)
	<hr/>			
Balance, end	P	-	P	-0-
	<hr/>			
<b>Due to Related Parties</b>				
Balance at beginning of year	P	14,421,693	P	13,302,975
Additions		328,802		1,118,712
Collections				( - )
	<hr/>			
Balance, end	P	14,750,495	P	14,421,693
	<hr/>			
<b>TOTAL Due to Related Parties</b>				
Balance at beginning of year	P	14,421,693	P	16,240,705
Additions		328,802		1,118,712
Collections				(2,937,730)
	<hr/>			
Balance, End	P	14,750,495	P	14,421,693
	<hr/>			

**(E) Corporate Governance**

- a. Corporate powers and governance of the entire Company are exercised, controlled and held by the Board of Directors comprising of 7 members, 2 of whom are independent directors, who are elected by and from among the stockholders. The Management of the Company such as its day-to-

day operation, policies and plans are reposed upon by the Board of Directors to its Executive Management headed by the President and Chief Executive Officer who oversees all aspects in management and reports to the Company's Board of Directors, the Chief Operating Officer who oversees all of the Company's operations and Chief Finance Officer who oversees all the financial aspect of the Company. Appointments of these officers are duly confirmed and approved by the Board of Directors. The Company complies with its minimum requirement prescribed by the Commission on good practices on Corporate Governance

The Company uses the evaluation system established by the Commission, including its Corporate Governance Scorecard, to measure or determine the level of compliance of the Board of Directors and top level management with the Company's Manual of Corporate Governance.

- b. The Company, through its Human Resources Department, hires or engages the services of competent persons in the respective field in petroleum operations, sales, finance, lubricants, legal and such other division covering the pertinent interests of the Company. The Company for a couple of years has implemented and observed the system of Performance and Career Evaluation Program (PacePro) which is done every year to evaluate the performance not only of the executive officers and senior management but likewise of the entire personnel of the Company from all job levels. The PacePro enables the Company to identify competent personnel in the performance of their respective work and provide the appropriate compensation adjustment, it likewise provides the proper training and development action plan for the mutual benefit of the employees and the Company. The review process also provides an opportunity for constructive discussion between manager and staff, enabling both to focus on improving performance. The review process involves the setting of Key Performance Indicators (KPI) as well as Key Results Area (KRA) at the start of the review cycle.

Also, employees and officers of the Company undergo professional development programs subject to meeting the criteria set by the Company.

- c. The Company has complied with the usual certification on the compliance of the Company's Corporate Governance annually as prescribed by the Commission. For this year, the Company has submitted the same on January 13, 2011 together with the attendance of the members of the Board of Directors for 2010.
- d. The Company is currently in full compliance with the leading practices on good corporate governance embodied in SEC Corporate Governance Scorecard.

There has been **NO** deviation from the Company's Manual of Corporate Governance.

- e. The Company is constantly seeking ways to improve compliance of the Corporate Governance. The Company shall adopt such improvement measures on its corporate governance as the exigencies of its business will require from time to time. Should there be significant changes, the Company shall properly disclose this with the Commission and the Exchange.

**(F) Undertaking to provide Without Charge a Copy of the Company's Annual Report on SEC Form 17-A**

**THE COMPANY WILL PROVIDE WITHOUT CHARGE A COPY OF THE COMPANY'S ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2008 (SEC FORM 17-A) TO ITS STOCKHOLDERS UPON RECEIPT OF A WRITTEN REQUEST ADDRESSED TO THE CORPORATE SECRETARY, STELLA HIZON REYES ROAD, BO. PAMPANGA, LANANG, DAVAO CITY.**

## PART V – EXHIBITS AND SCHEDULES

### Exhibits and Reports on SEC Form 17-C

#### Exhibits

The following exhibits are incorporated by reference in this report.

- Consolidated Financial Statements of the Company as of and for the year ended 31 December 2010
- Index to Financial Statements and Supplementary Schedules

#### Reports on SEC Form 17-C

The following disclosures have been reported and disclosed to the Commission for the year 2010 and January of 2011 which were duly supported by disclosure letters:

DATE	
January 8, 2010	Report of the number of stockholders owning at least one board lot of 1,000 shares
	SEC Form 23-B of the Directors of the Company, namely: Romeo B. De Guzman, Jose Manuel R. Quimzon, Socorro Ermac Cabreros for the individual additional purchases of PNx shares.
January 15, 2010	Disclosure re report of the stock transfer agent on the list of top 100 stockholders of the our company.
January 18, 2010	Disclosure regarding BOD's approval of the following resolutions: <ol style="list-style-type: none"> <li>1. Amendment of Article of the Incorporation of the company to reclassify 50,000,000 million shares out of the unissued share of the 400,000,000 authorized common share.</li> <li>2. Reissuance of all or part of any shares held by the company.</li> <li>3. Holding of a special Stockholders Meeting on 05 March 2010</li> <li>4. Expansion of the port Facility in Phoenix Petroterminals &amp; industrial Park</li> </ol>
January 19, 2010	Disclosure regarding approval of the BOD on the employees stock option plan(ESOP)
January 21, 2010	Disclosure re purchase of 151,000 PNx share acquired at Php7.00 per share.
January 28, 2010	Disclosure of the company's disposition of 2,500,000 treasury shares at Php6.90 per share.

February 03, 2010	Disclosure of the Public Ownership Report of our company as of December 31, 2009.
February 09, 2010	Disclosure on the certification of attendance of the company's Board of Directors
March 08, 2010	Disclosure on the Boardlot as of Feb 28, 2010
March 19, 2010	Disclosure on the report of the stock transfer agent on the stockholders owning at least one board lot of 1,000 shares
April 5, 2010	Disclosure on the press statement in relation to recently concluded annual audit.
	Disclosure announcing the company's 50-million liter storage terminal inside the Phoenix Petroterminals and Industrial Park.
April 13, 2010	Disclosure on the report of the stock transfer agent on the stockholders owning at least one board lot of 1,000 shares
April 14, 2010	Disclosure on the report of the stock transfer agent on the Top Stockholders re submitted and obtained from the Philippine Depository Trust Corp.(PDTCT)
April 15, 2010	Disclosure on the Company's SEC Form 17-A for year ended December 31, 2009.
May 12, 2010	Disclosure of Boardlot as of April 30, 2010
May 19, 2010	Disclosure pertaining to new schedule of ASM on July 15, 2010 at the Marco Polo Davao.
May 24, 2010	Disclosure re approval of SEC on the Amendment of AI after reclassification of shares
June 7, 2010	Disclosure of the boardlot as of May 31, 2010
	Disclosure on the foreign ownership
June 24, 2010	Updated Certification of Qualification of the independent directors
July 2, 2010	Disclosure on the announcement of the stockholders of record of the company as of July 15, 2010 re entitlement of cash div. at the rate Php.05/share
July 15, 2010	Disclosure on the results of the July 15, 2010 Annual Stockholders Meeting
July 20, 2010	Disclosure of the Annual Stockholders Meeting and Organizational Meeting of the BOD.
	Disclosure on the List of Top 100 stockholders of the company as of June 30, 2010
	Report of the president during the July 15, 2010 ASM for press statement
July 30, 2010	SEC Form 23-B for the additional purchase of shares by Romeo B. De Guzman
August 09, 2010	Second Quarterly Report (SEC Form 17-Q) for the period ended June 30, 2010
September 7, 2010	Report of the stock transfer agent on the stockholders owning at least one board lot of 1,000 shares
September 13, 2010	Disclosure of the approval of Securities and Exchange Commission of the company's amendment of Article VII of the Corporations AOI.



September 17, 2010	Disclosure that the company has disposed and sold 1,500,000 treasury shares at Php9.20 per share.
September 21, 2010	SEC Form 17-C re Issuance of Php500,000,000 worth of perpetual non-convertible preferred shares.
October 1, 2010	SEC Form 17-C of the CFO, Francis A. Caluag
October 15, 2010	Disclosure that the company had erroneously provided for the date of the approval of the declaration of the 40% stock dividends.
October 18, 2010	Disclosure of boardlot.
	Disclosure on the report of the stock transfer agent on the Top Stockholders re submitted and obtained from the Philippine Depository Trust Corp.(PDTC)
November 9, 2010	SEC FORM 17-C re boardlot as of October 31, 2010
December 15, 2010	SEC Form 23-B of the additional purchase of shares by Mr. Joseph John L. Ong
December 23, 2010	BOD's approval of the conduct of an FOO
January 10, 2011	Official Report of the Number of Stockholders owning at least one board lot of 1,000 shares as submitted by the Stock and Transfer Agent
	Report on the Top Stockholders of our company in relation to the detailed report submitted and obtained from the PDTC
January 14, 2011	Disclosures on the Certifications of attendance of the Company's Board of Directors and Compliance of the Manual of Corporate Governance 2010
January 20, 2011	SEC Form 23-B of Udenna Corporation for the additional purchase of PNx shares on Jan. 20, 2011
January 21, 2011	SEC Form 23-B of Udenna Corporation for the additional purchase of PNx shares on Jan. 21, 2011

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Davao on February 17, 2011.


By:



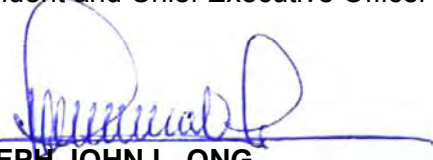
**DOMINGO T. UY**  
Chairman



**DENNIS A. UY**  
President and Chief Executive Officer



**SOCORRO E. CABREROS**  
Corporate Secretary



**JOSEPH JOHN L. ONG**  
Chief Finance Officer



## Report of Independent Auditors

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The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

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### The Board of Directors

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

We have audited the accompanying consolidated financial statements of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2010, and 2009, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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




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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries as at December 31, 2010 and 2009, and of their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

**PUNONGBAYAN & ARAULLO**

  
By: **Ramilito L. Nañola**  
Partner  
CPA Reg. No. 0090741  
TIN 109-228-427  
PTR No. 2641865, January 3, 2011, Makati City  
SEC Accreditation No. 0395-AR-1  
BIR AN 08-002511-19-2009 (Sept. 16, 2009 to 2012)

January 18, 2011




STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS

The management of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2010, 2009 and 2008. The financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

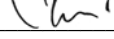
In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. Management likewise discloses the Group's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls, and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Group.

Punongbayan & Araullo, the independent auditors and appointed by the stockholders, has examined the financial statements of the Group in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to stockholders.

Signature   
Name of the Chairman of the Board

DOMINGO T. UY

Signature   
Name of President and Chief Executive Officer

DENNIS A. UY

Signature   
Name of Chief Finance Officer

JOSEPH JOHN DE LEON ONG

**PHOENIX PETROLEUM PHILIPPINES, INC.**

Head Office: Phoenix Bulk Depot, Barangay Pampanga, Lanang,  
8000 Davao City, Philippines  
Davao Trunkline 082-235-8888 Fax: 082-2330168

Manila Office: 25th Floor, FORT LEGEND TOWERS, 3rd Avenue corner 31st St., Bonifacio Global City,  
Taguig City, 1634 Philippines  
Telephone: +63-2-4034013

[www.phoenixphilippines.com](http://www.phoenixphilippines.com)

**-JURAT-**

**SUBSCRIBED AND SWORN** to before me on 15 FEBRUARY 2011 in Davao City, Philippines. Affiants have confirmed their identities by presenting competent evidence of identity, viz:

Name	Competent Evidence of Identity	Date/Place Issued
Domingo T. Uy	SSS ID No. 09-0185238-6	
Dennis A. Uy	SSS ID No. 09-1539399-6	
Joseph John L. Ong	SSS ID No. 03-5903914-6	

and that they further attest that the same are true and correct.

Doc No. 73  
Page No. 15  
Book No. II  
Series of 2011



**PETER PAUL M. TOMBO**

Notary Public Until December 31, 2011  
SN 232-2010/ TIN 930-192-964  
Phoenix Petroleum Philippines, Inc.  
Phoenix Bulk Depot, Lanang, Davao City  
Roll of Attorney No. 57679  
PTR No. 9819622/01-21-2011/Davao City  
IBP No. 838385/1-20-2011/Davao City

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2010 AND 2009**  
*(Amounts in Philippine Pesos)*

	Notes	<u>2010</u>	<u>2009</u>
<b>A S S E T S</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	<b>P 605,444,745</b>	P 365,957,067
Trade and other receivables - net	7	<b>2,592,845,395</b>	1,368,763,974
Inventories	8	<b>1,051,658,928</b>	457,924,415
Land held for sale and land development costs	9	<b>451,587,118</b>	533,545,205
Due from related parties	25	<b>14,750,495</b>	14,421,693
Restricted deposits	10	<b>73,422,716</b>	58,899,604
Input value-added tax - net		<b>27,539,110</b>	66,993,093
Other current assets	11	<b><u>53,432,012</u></b>	<u>52,337,797</u>
Total Current Assets		<b><u>4,870,680,519</u></b>	<u>2,918,842,848</u>
<b>NON-CURRENT ASSETS</b>			
Installment contract receivable		<b>18,005,640</b>	-
Land held for future development	13	<b>315,874,750</b>	315,874,750
Property and equipment - net	12	<b>2,358,043,160</b>	1,699,955,777
Deferred tax assets	24	<b>19,263,602</b>	17,213,693
Other non-current assets	14	<b><u>59,404,222</u></b>	<u>51,525,874</u>
Total Non-current Assets		<b><u>2,770,591,374</u></b>	<u>2,084,570,094</u>
<b>TOTAL ASSETS</b>		<b><u>P 7,641,271,893</u></b>	<u>P 5,003,412,942</u>

	Notes	2010	2009
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	15	<b>P 2,703,702,165</b>	P 1,548,806,973
Trade and other payables	16	<b>1,637,293,361</b>	1,059,260,639
Due to parent company	25	<b><u>53,106,188</u></b>	<u>53,114,682</u>
Total Current Liabilities		<b><u>4,394,101,714</u></b>	<u>2,661,182,294</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	15	<b>723,350,472</b>	769,650,760
Other non-current liabilities	17	<b><u>62,611,981</u></b>	<u>43,720,366</u>
Total Non-current Liabilities		<b><u>785,962,453</u></b>	<u>813,371,126</u>
Total Liabilities		<b><u>5,180,064,167</u></b>	<u>3,474,553,420</u>
<b>EQUITY</b>			
Common stock	26	<b>376,824,940</b>	269,160,875
Preferred stock		<b>5,000,000</b>	-
Additional paid-in capital		<b>802,778,234</b>	261,614,249
Deposits on future stock subscriptions		<b>-</b>	44,625,000
Treasury shares		<b>-</b>	( 17,252,140 )
Retained earnings		<b><u>1,276,604,552</u></b>	<u>970,711,538</u>
Total Equity		<b><u>2,461,207,726</u></b>	<u>1,528,859,522</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 7,641,271,893</u></b>	<u>P 5,003,412,942</u>

*See Notes to Consolidated Financial Statements.*



**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**  
*(Amounts in Philippine Pesos)*

	Notes	2010	2009	2008
<b>REVENUES</b>				
Sale of goods - net		<b>P 14,639,250,037</b>	P 5,738,602,943	P 4,562,905,713
Fuel service, storage income and other revenues		<u>152,938,176</u>	<u>134,448,520</u>	<u>52,311,246</u>
		<u>14,792,188,213</u>	<u>5,873,051,463</u>	<u>4,615,216,959</u>
<b>COST AND EXPENSES</b>				
Cost of sales and services	18	<b>13,476,620,449</b>	5,181,073,940	4,194,195,752
Selling and administrative expenses	19	<u>674,456,371</u>	<u>408,221,526</u>	<u>255,821,298</u>
		<u>14,151,076,820</u>	<u>5,589,295,466</u>	<u>4,450,017,050</u>
<b>OTHER INCOME (CHARGES)</b>				
Finance costs	20	( 316,387,078 )	( 114,569,133 )	( 46,050,530 )
Finance income	20	101,753,084	5,021,908	25,328,030
Excess of fair value of net assets acquired over acquisition cost	30	-	573,389,348	-
Others		<u>4,142,835</u>	<u>259,222</u>	<u>( 19,978 )</u>
		<u>( 210,491,159 )</u>	<u>464,101,345</u>	<u>( 20,742,478 )</u>
<b>PROFIT BEFORE TAX AND PRE-ACQUISITION LOSS</b>		<b>430,620,234</b>	747,857,342	144,457,431
<b>PRE-ACQUISITION LOSS</b>		<u>-</u>	<u>( 965,075 )</u>	<u>-</u>
<b>PROFIT BEFORE TAX</b>		<b>430,620,234</b>	746,892,267	144,457,431
<b>TAX INCOME (EXPENSE)</b>	24	<b>( 3,406,725 )</b>	<u>4,584,392</u>	<u>5,831,307</u>
<b>NET PROFIT</b>	27	<u>427,213,509</u>	<u>751,476,659</u>	<u>150,288,738</u>
<b>OTHER COMPREHENSIVE INCOME</b>		<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 427,213,509</b>	P 751,476,659	P 150,288,738
<b>Earnings per share</b>	27	<b>P 1.43</b>	P 3.48	P 0.91

*See Notes to Consolidated Financial Statements.*

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**  
*(Amounts in Philippine Pesos)*

	Note	2010	2009	2008
<b>COMMON STOCK</b>				
	26			
Balance at beginning of year		P 269,160,875	P 188,000,198	P 145,000,000
Stock dividends		107,664,065	73,660,677	43,000,198
Issuance during the year		<u>-</u>	<u>7,500,000</u>	<u>-</u>
Balance at end of year		<u>376,824,940</u>	<u>269,160,875</u>	<u>188,000,198</u>
<b>PREFERRED STOCK</b>				
Balance at beginning of year		-	-	-
Issuance during the year		<u>5,000,000</u>	<u>-</u>	<u>-</u>
Balance at end of year		<u>5,000,000</u>	<u>-</u>	<u>-</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>				
	26			
Balance at beginning of year		261,614,249	227,114,249	227,114,249
Additions during the year		<u>541,163,985</u>	<u>34,500,000</u>	<u>-</u>
Balance at end of year		<u>802,778,234</u>	<u>261,614,249</u>	<u>227,114,249</u>
<b>DEPOSITS ON FUTURE STOCK SUBSCRIPTIONS</b>				
	26			
Balance at beginning of year		44,625,000	-	-
Withdrawal during the year		( 44,625,000 )	-	-
Additions during the year		<u>-</u>	<u>44,625,000</u>	<u>-</u>
Balance at end of year		<u>-</u>	<u>44,625,000</u>	<u>-</u>
<b>TREASURY SHARES - At Cost</b>				
	26			
Balance at beginning of year		( 17,252,140 )	( 17,252,140 )	( 5,639,300 )
Issuance during the year		17,252,140	-	-
Purchases during the year		<u>-</u>	<u>-</u>	<u>( 11,612,840 )</u>
Balance at end of year		<u>-</u>	<u>( 17,252,140 )</u>	<u>( 17,252,140 )</u>
<b>RETAINED EARNINGS</b>				
Balance at beginning of year		970,711,538	292,895,556	200,107,018
Net profit		427,213,509	751,476,659	150,288,738
Stock dividends	26	( 107,664,065 )	( 73,660,677 )	( 43,000,198 )
Cash dividends	26	( <u>13,656,430</u> )	<u>-</u>	( <u>14,500,002</u> )
Balance at end of year		<u>1,276,604,552</u>	<u>970,711,538</u>	<u>292,895,556</u>
<b>TOTAL EQUITY</b>		<u>P 2,461,207,726</u>	<u>P 1,528,859,522</u>	<u>P 690,757,863</u>

*See Notes to Consolidated Financial Statements.*

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**  
*(Amounts in Philippine Pesos)*

	Notes	2010	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax		P 430,620,234	P 746,892,267	P 144,457,431
Adjustments for:				
Interest expense	20	229,169,176	102,099,397	42,549,183
Depreciation and amortization	12	108,888,656	77,254,700	58,801,456
Impairment losses	20	56,530,443	1,190,410	-
Interest income		( 4,225,518 )	( 5,021,908 )	( 25,328,030 )
Excess of fair value of net assets acquired over acquisition cost	30	-	( 573,389,348 )	-
Operating profit before working capital changes		820,982,990	349,025,518	220,480,040
Increase in trade and other receivables		( 1,280,611,864 )	( 604,736,327 )	( 404,153,491 )
Decrease (increase) in:				
Inventories		( 593,734,513 )	( 301,958,071 )	22,093,215
Land held for sale and land development costs		81,958,087	( 222,674,997 )	-
Restricted deposits		( 14,523,112 )	21,741,376	( 35,889,160 )
Input value-added tax		39,453,982	( 22,865,192 )	( 21,326,881 )
Increase in other current assets		( 1,094,215 )	( 14,984,420 )	( 31,429,929 )
Increase in installment contract receivable		( 18,005,640 )	-	-
Increase in trade and other payables		578,032,722	308,818,356	581,010,869
Cash generated from (used in) operations		( 387,541,562 )	( 487,633,757 )	330,784,663
Cash paid for income taxes		( 5,456,634 )	( 1,695,895 )	( 4,926 )
Net Cash Used in Operating Activities		( 392,998,196 )	( 489,329,652 )	330,779,737
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net acquisitions of property and equipment	12	( 766,976,039 )	( 719,124,499 )	( 526,444,394 )
Net increase in other non-current assets		( 7,878,348 )	( 32,669,160 )	( 7,830,721 )
Interest received		4,225,518	5,021,908	25,328,030
Advances to related parties - net	25	( 328,802 )	( 1,118,712 )	( 34,087,608 )
Increase in land held for future development		-	( 230,095,255 )	-
Collections from related parties	25	-	2,937,730	53,445,979
Net Cash Used in Investing Activities		( 770,957,671 )	( 975,047,988 )	( 489,588,714 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net increase in interest-bearing loans and borrowings		1,108,594,904	1,414,682,247	453,287,788
Increase in additional paid-in capital	26	541,163,985	34,500,000	-
Interest paid		( 229,169,176 )	( 102,099,397 )	( 42,549,183 )
Increase (decrease) in deposits on future stock subscriptions	26	( 44,625,000 )	44,625,000	-
Increase in non-current liabilities		18,891,616	20,614,816	17,401,800
Decrease (increase) in treasury shares	26	17,252,140	-	( 11,612,840 )
Payments of cash dividends	26	( 13,656,430 )	-	( 14,500,002 )
Proceeds from issuance of shares of stock	26	5,000,000	7,500,000	-
Borrowings from (repayments to) parent company		( 8,494 )	53,114,682	-
Net Cash From Financing Activities		1,403,443,545	1,472,937,348	402,027,563
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>239,487,678</b>	<b>8,559,708</b>	<b>243,218,586</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	6	<b>365,957,067</b>	<b>357,397,359</b>	<b>114,178,773</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	6	<b>P 605,444,745</b>	<b>P 365,957,067</b>	<b>P 357,397,359</b>

**Supplemental Information on Non-cash Investing and Financing Activities**

Stock dividends declared and distributed by the Group amounted to P107.7 million in 2010, P73.6 million in 2009 and P43.0 million in 2008 (see Note 26.5).

*See Notes to Consolidated Financial Statements.*

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010, 2009, AND 2008**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

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

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

PPHI was incorporated in the Philippines on May 31, 2006 but has not started commercial operations. PPHI's primary purpose is to provide management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises. PPHI's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The ultimate parent of the Group is the Udenna Corporation, which is engaged in the acquisition, development, management and operation of real estate. The ultimate parent company's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The Parent Company has a total of 161 service stations, including 33 service stations in Luzon, 5 in Visayas and 123 in Mindanao operating as of December 31, 2010 and there are a total of 38 service stations under construction as of December 31, 2010.

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

	<u>2010</u>	<u>2009</u>
P-F-L Petroleum Management, Inc. (PPMI)	<b>100%</b>	100%
P-H-O-E-N-I-X Global Mercantile, Inc. (PGMI)	<b>100%</b>	100%
Bacnotan Industrial Park Corporation (BIPC)	<b>100%</b>	100%
Petroterminals Philippines Corporation (PPC)	-	100%
Petrologistix Services Corp. (PSC)	-	100%

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

All the subsidiaries were organized and incorporated in the Philippines.

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

PGMI which was registered with SEC on July 31, 2006 and was previously engaged in the manufacture, production and creation of all kinds of motor, and all other transportation lubricants, fluids and additives of all kinds and other petroleum products purposely for motor vehicles and other transportation. PGMI temporarily ceased its operation.

BIPC is engaged in real estate development. BIPC was registered with SEC on March 7, 1996. BIPC is also registered with the Housing and Land Use Regulatory Board (HLURB) under Executive Order No. 648 and was granted a license to sell parcels of land on March 31, 2000 covering 25.4 hectares for Phase 1 of BIPC's project, the Phoenix Petroleum Industrial Park (Park), formerly Batangas Union Industrial Park, located at Km. 117, National Highway, Calaca, Batangas.

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

#### *(c) Functional and Presentation Currency*

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

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

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

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

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

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

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

- (i) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value and a gain or loss is recognized in profit or loss. The adoption of the standard did not result in any adjustment to the financial statements as there were no transactions with non-controlling interests during the year.
- (ii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective from July 1, 2009). The amendment clarifies the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment did not have a significant impact on the Group's financial statements
- (iii) PFRS 2 (Amendment), *Group Cash-settled Share-based Payment Transactions*, (effective from January 1, 2010). The amendment clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled. The amendment did not have a significant impact on the Group's financial statements.

- (iv) PFRS 3 (Revised), *Business Combinations* (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Group did not have any business acquisition during the year, hence, the adoption of the revised standard has no effect on the 2010 financial statements.
- (v) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Group's adoption of this interpretation did not have a material impact on the financial statements because retrospective application of this interpretation is not permitted and, therefore, did not have any effect on any previous distribution of non-cash assets to stockholders. In addition, the Group did not distribute non-cash assets to stockholders during the year.
- (vi) Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers* (effective from July 1, 2009). This interpretation provides guidance on how to account for items of property, plant and equipment received from customers; or cash that is received and used to acquire or construct specific assets. It is only applicable to agreements in which an entity receives from a customer such assets that the entity must either use to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. The Group determined that the adoption of this interpretation had no material effect on its financial statements.
- (vii) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to Philippine Financial Reporting Standards 2009*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009, or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's financial statements:
- PAS 1 (Amendment), *Presentation of Financial Statements* (effective from January 1, 2010). The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. The Group determined that the adoption of this amendment had no material effect on its financial statements.



- PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not have a material impact on the financial statements since only recognized assets are classified by the Group as cash flow from investing activities.
- PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17.
- PAS 18 (Amendment), *Revenue* (effective from January 1, 2010). The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.
- PAS 36 (Amendment), *Impairment of Assets* (effective from January 1, 2010). PAS 36 clarifies that the largest unit permitted for the purpose of allocating goodwill to cash-generating units for goodwill impairment is the operating segment level defined in PFRS 8 before aggregation. This amendment did not have material impact on the Group's financial statements.
- PAS 38 (Amendment), *Intangible Assets* (effective from July 1, 2009). The amendment clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. This amendment did not have a material impact on the Group's financial statements.
- PFRS 2 (Amendment), *Share-based Payment* (effective from July 1, 2009). The amendment confirms that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of PFRS 2. The amendment did not have a material impact on the Group's financial statements.
- PFRS 8 (Amendment), *Operating Segments* (effective from January 1, 2010). It clarifies that a measure of segment assets should be disclosed only if the amount is regularly provided to the chief operating decision maker (CODM). The Group reports total assets for each of its reportable segments as they are regularly provided to the CODM; hence, there is no significant effect on the Group's segment reporting.

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

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

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

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

(c) *Effective Subsequent to 2010*

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

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

- (ii) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective on or before January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19 surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its financial statements because its pension plan is unfunded.
- (iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective on or after July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as “debt for equity” exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:
- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with PAS 39;
  - the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
  - if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
  - the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

- (v) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):
  - o Phase 1: Classification and Measurement
  - o Phase 2: Impairment Methodology
  - o Phase 3: Hedge Accounting

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

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

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

### **2.3 Basis of Consolidation**

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

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

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

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

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

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

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

## ***2.4 Financial Assets***

Financial assets, which are recognized when the Group becomes a party to the contractual terms of the financial instrument, include cash and other financial instruments. Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

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

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

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

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

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

### ***2.5 Inventories***

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

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

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

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

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

### ***2.7 Property and Equipment***

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

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

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

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing cost and other direct costs (see Note 2.17). The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

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

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

## ***2.8 Land Held for Future Development***

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

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

## ***2.9 Financial Liabilities***

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

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

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

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

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

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

## ***2.10 Provisions***

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

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

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



### ***2.11 Business Combinations***

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

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

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

### ***2.12 Revenue and Expense Recognition***

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

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

- (a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, i.e. when the customer has acknowledged delivery of goods.
- (b) *Fuel service, storage income and other revenues* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. This account includes franchise income, which has minimal amount. In addition, this includes revenue arising from port and cargo handling services. Revenue from port operations is recognized when services are rendered.
- (c) *Interest income* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.
- (d) *Rent income* – Revenue is recognized over the lease term as it becomes receivable according to the provision of the lease.
- (e) *Sale of real estate* – Revenue from the sale of real estate, which includes cost of land and development, is accounted for under the percentage of completion method when the Group has material obligations under the sales contracts to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured on the basis of the ratio of actual cost incurred to date over the estimated total costs of the project as determined by the Group's contractors and technical personnel.

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

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

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

### **2.13 Leases**

The Group accounts for its leases as follows:

#### *(a) Group as Lessee*

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

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

#### *(b) Group as Lessor*

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

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

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

#### ***2.14 Foreign Currency Transactions***

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

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

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

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

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

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

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

## **2.16 Employee Benefits**

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

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

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

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

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

### *(b) Compensated Absences*

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

(c) *Share-Based Payments*

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

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

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

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

**2.17 Borrowing Costs**

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

**2.18 Income Taxes**

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

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

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

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

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

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

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

### ***2.19 Related Party Transactions***

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

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

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

### ***2.20 Equity***

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

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

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

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

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

### ***2.21 Basic Earnings per Share***

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

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

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

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

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

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

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

#### ***(b) Provisions and Contingencies***

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

(c) *Estimating Development Costs*

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

**3.2 Key Sources of Estimation Uncertainty**

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

(a) *Allowance for Impairment of Trade and Other Receivables*

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

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

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

(b) *Determining Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amounts of inventories (P1.05 billion and P0.46 billion as at December 31, 2010 and 2009, respectively, as presented in Note 8) is affected by price changes. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.



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

In determining the net realizable value of land held for sale and land development costs and land held for future development, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amounts of land held for sale and development costs (P451.6 million and P533.5 million as of December 31, 2010 and 2009, respectively – see Note 9 and land held for future development amounting to P315.9 million as at December 31, 2010 and 2009 – see Note 13) is affected by price changes in different market segments. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments within the next financial year.

(d) *Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analyzed in Note 12. Based on management's assessment as at December 31, 2010, there is no change in the estimated useful life of the property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Impairment of Non-financial Assets*

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

The management has assessed that there are no impairment losses to be provided in 2010, 2009 and 2008.

(f) *Realizable Amount of Deferred Tax Assets*

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

(g) *Liability for Land Development*

Obligations to complete development of real estate are based on actual costs and project estimates of contractors and Group's technical staff. These costs are reviewed at least annually and are updated if expectations differ from previous estimates. Liability to complete the project included for land development are presented as part of trade payables under Trade and Other Payables account in the consolidated statements of financial position amounted to P1.1 million and P0.8 million as of December 31, 2010 and 2009, 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 retirement benefit obligation amounted to P5.5 million and P4.2 million as of December 31, 2010 and 2009, respectively (see Note 21.2).

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

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

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

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

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

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

(a) *Foreign Currency Sensitivity*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's fuel importation, which are primarily denominated in U.S. dollars. The liability covering the importation is covered by letter of credits which is subsequently closed to Philippine peso trusts receipts. As of December 31, 2010 and 2009, the Group has no dollar denominated liabilities.

(b) *Interest Rate Sensitivity*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowing interest rates range from 7.16% to 10.25% per annum. At December 31, 2010 and 2009, the Group is exposed to changes in market interest rates through its cash and cash equivalents and bank borrowings, which are subject to variable interest rates (see Notes 6 and 15). All other financial assets and liabilities have fixed rates.

The following table illustrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates of +/- 1.82%, +/- 1.82% and +/- 1.90% in 2010, 2009 and 2008, respectively. 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>2010</u>		<u>2009</u>		<u>2008</u>	
	<u>+ 182/ 88</u>	<u>- 182/ 88</u>	<u>+ 182/ 88</u>	<u>- 182/ 88</u>	<u>+190/ 90</u>	<u>-190/ 90</u>
<b>Profit before</b>						
tax	( 53,061,680)	53,051,680	(P34,489,575)	P 34,489,575	(P 7,395,332)	P 7,395,355

**4.2 Credit Risk**

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

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

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

	Notes	<u>2010</u>	<u>2009</u>
Cash and cash equivalents (excluding cash on hand)	6	<b>P 602,139,606</b>	P 363,705,435
Trade and other receivables - net	7	<b>2,592,845,395</b>	1,368,763,974
Due from related parties	25.4	<b>14,750,495</b>	14,421,693
Restricted deposits	10, 14	<b>74,630,806</b>	60,079,767
Refundable rent deposits	14	<b>47,758,188</b>	39,972,793
Installment contract receivable		<b><u>18,005,640</u></b>	<u>-</u>
		<b><u>P 3,350,130,130</u></b>	<b><u>P 1,846,943,662</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 P3,305,139 in 2010 and P2,251,632 in 2009 (see Note 6). Cash in banks, which are insured by the Philippine Deposit Insurance Corporation up to maximum coverage of P500,000 per depositor per banking institution, as provided for under Republic Act (RA) 9302, *Charter of Philippine Deposit Insurance Corporation*, are still subject to credit risk.

*(b) Trade and other receivables*

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

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

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

	<u>2010</u>	<u>2009</u>
Not more than one month	<b>P 100,038,064</b>	P 145,052,920
More than one month but not more than two months	<b>35,484,465</b>	42,659,470
More than two months but not more than six months	<b>21,812,750</b>	-
More than six months but not more than one year	<b>8,175,561</b>	92,772,329
More than one year	<b><u>26,300,188</u></b>	<u>21,025,414</u>
	<b><u>P 191,811,028</u></b>	<b><u>P 301,510,133</u></b>

### 4.3 Liquidity Risk Analysis

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

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

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

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

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

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

### 5.1 Comparison of Carrying Amounts and Fair Values

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

		<u>Notes</u>	<u>2010</u>		<u>2009</u>	
			<u>Carrying Values</u>	<u>Fair Values</u>	<u>Carrying Values</u>	<u>Fair Values</u>
<b>Financial Assets</b>						
Loans and receivables:						
Cash and cash equivalents	6	P	605,444,475	P 605,444,475	P 365,957,067	P 365,957,067
Trade and other receivables	7		2,592,845,395	2,592,845,395	1,368,763,974	1,368,763,974
Due from related parties	25.4		14,750,495	14,750,495	14,421,693	14,421,693
Restricted deposits	10, 14		74,630,806	74,630,806	60,079,767	60,079,767
Refundable rent deposits	14		47,758,188	47,758,188	39,972,793	39,972,793
Installment contract receivable			<u>18,005,640</u>	<u>18,005,640</u>	<u>-</u>	<u>-</u>
			<u>P3,353,434,999</u>	<u>P3,353,434,999</u>	<u>P1,849,195,294</u>	<u>P1,849,195,294</u>

	Notes	2010		2009	
		Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial Liabilities</b>					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	15	P3,427,052,637	P3,427,052,637	P2,318,457,733	P 2,318,457,733
Trade and other payables	16	1,637,293,361	1,637,293,361	1,059,260,639	1,059,260,639
Due to parent company	25.4	53,106,188	53,106,188	53,114,682	53,114,682
Security deposits	17	<u>53,072,027</u>	<u>53,072,027</u>	<u>34,750,000</u>	<u>34,750,000</u>
		<u>P 5,170,524,213</u>	<u>P 5,170,524,213</u>	<u>P 3,465,583,054</u>	<u>P 3,465,583,054</u>

## 5.2 Fair Value Hierarchy

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

- (a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (as prices) or indirectly (derived from prices); and,
- (c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	<u>2010</u>	<u>2009</u>
Cash in banks	<b>P 523,179,606</b>	P 348,148,556
Short-term placements	<b>78,960,000</b>	15,556,879
Cash on hand	<u><b>3,305,139</b></u>	<u>2,251,632</u>
	<u><b>P 605,444,745</b></u>	<u>P 365,957,067</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 2010 and 2009.

The balances of the cash on hand and in banks as of December 31, 2010 and 2009 did not include an amount of P74.6 million and P60.0 million, respectively, which is shown as Restricted Deposits account in the statements of financial position (see Notes 10 and 14). Such amount is not available for the general use of the Group in accordance with a restriction under a loan covenant (see Note 15.1).

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>2010</u>	<u>2009</u>
Trade receivables	<b>P2,018,054,235</b>	P 946,088,436
Advances to suppliers	<b>555,899,104</b>	358,631,703
Non-trade receivables	<b>52,797,910</b>	41,626,594
Other receivables	<u><b>22,624,589</b></u>	<u>22,648,816</u>
	<b>2,649,375,838</b>	1,368,995,549
Allowance for impairment	<u><b>( 56,530,443)</b></u>	<u>( 231,575)</u>
	<u><b>P2,592,845,395</b></u>	<u>P 1,368,763,974</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 2010 and 2009 is shown below:

	<u>Note</u>	<u>2010</u>	<u>2009</u>
Balance at beginning of year		<b>P 231,575</b>	P -
Impairment loss during the year	20.1	<b>56,530,443</b>	1,190,410
Write-off of receivables		<b>( 231,575)</b>	( 958,835)
Balance at end of year		<b><u>P 56,530,443</u></b>	<b><u>P 231,575</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>Note</u>	<u>2010</u>	<u>2009</u>
Fuel		<b>P 900,181,181</b>	P 318,469,705
Lubricants		<b><u>151,477,747</u></b>	<u>139,454,710</u>
	18.1	<b><u>P 1,051,658,928</u></b>	<b><u>P 457,924,415</u></b>

Under the terms of agreements covering the liabilities under trust receipts, certain inventories have been released to the Group in trust for the bank. The Group is accountable to the bank for the trusted inventories or their sales proceeds (see Note 15.1).

There were no inventory write-down both in 2010 and 2009.

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

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

The land held for sale and land development costs relate to the following as of December 31:

	<u>2010</u>	<u>2009</u>
Land held for sale	<b>P 433,484,266</b>	P 512,156,885
Land development costs	<b><u>18,102,852</u></b>	<u>21,388,320</u>
	<b><u>P 451,587,118</u></b>	<b><u>P 533,545,205</u></b>

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

## 10. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various banking credit facilities covered by hold-out agreements (see Note 15.1). As such, these are restricted as to withdrawals. The proceeds from availment of these banking credit facilities by the Group are used for the purpose of purchasing fuel and lubricant supplies. Interest rates for this type of deposit ranges from 3.125% to 5.975% per annum in 2010 and 2009.

## 11. OTHER CURRENT ASSETS

The composition of this account as of December 31 is shown below:

	<u>2010</u>	<u>2009</u>
Prepayments	<b>P 44,300,527</b>	P 44,756,747
Creditable withholding tax	<b>3,796,093</b>	5,811,092
Supplies	<b>3,500,554</b>	-
Others	<u><b>1,834,838</b></u>	<u>1,769,958</u>
	<u><b>P 53,432,012</b></u>	<u>P 52,337,797</u>

## 12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2010 and 2009 are shown below:

	<u>Buildings, Depot and Pier Facilities</u>	<u>Leasehold and Land Improvements</u>	<u>Gasoline Station Equipment</u>	<u>Office Furniture and Equipment</u>	<u>Hauling and Heavy Equipment</u>	<u>Transportation and Other Equipment</u>	<u>Land</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 2010									
Cost	P 1,099,936,891	P 43,452,012	P 554,116,295	P 46,110,936	P 237,695,961	P 86,532,086	P 202,095,194	P 491,371,345	P 2,761,310,720
Accumulated depreciation and amortization	( 188,091,626)	( 13,435,437)	( 64,434,605)	( 29,715,158)	( 73,827,034)	( 33,763,700)	-	-	( 403,267,560)
Net carrying amount	<u>P 911,845,265</u>	<u>P 30,016,575</u>	<u>P 489,681,690</u>	<u>P 16,395,778</u>	<u>P 163,868,927</u>	<u>P 52,768,386</u>	<u>P 202,095,194</u>	<u>P 491,371,345</u>	<u>P 2,358,043,160</u>
December 31, 2009									
Cost	P 617,338,531	P 33,410,156	P 315,521,430	P 58,988,723	P 154,156,153	P 65,033,338	P 164,684,194	P 585,390,519	P 1,994,523,044
Accumulated depreciation and amortization	( 128,767,036)	( 10,056,853)	( 57,757,466)	( 22,897,040)	( 49,083,920)	( 26,004,952)	-	-	( 294,567,267)
Net carrying amount	<u>P 488,571,495</u>	<u>P 23,353,303</u>	<u>P 257,763,964</u>	<u>P 36,091,683</u>	<u>P 105,072,233</u>	<u>P 39,028,386</u>	<u>P 164,684,194</u>	<u>P 585,390,519</u>	<u>P 1,699,955,777</u>
January 1, 2009									
Cost	P 74,228,994	P 20,067,069	P 249,002,393	P 44,432,525	P 103,229,136	P 40,567,880	P 134,853,747	P 338,399,426	P 1,004,781,170
Accumulated depreciation and amortization	( 18,757,638)	( 7,491,121)	( 39,307,495)	( 17,042,195)	( 27,420,428)	( 13,415,960)	-	-	( 123,434,837)
Net carrying amount	<u>P 55,471,356</u>	<u>P 12,575,948</u>	<u>P 209,694,898</u>	<u>P 27,390,330</u>	<u>P 75,808,708</u>	<u>P 27,151,920</u>	<u>P 134,853,747</u>	<u>P 338,399,426</u>	<u>P 881,346,333</u>

A reconciliation of the carrying amounts at the beginning and end of 2010 and 2009 of property and equipment is shown below:

	<u>Buildings, Depot and Pier Facilities</u>	<u>Leasehold and Land Improvements</u>	<u>Gasoline Station Equipment</u>	<u>Office Furniture and Equipment</u>	<u>Hauling and Heavy Equipment</u>	<u>Transportation and Other Equipment</u>	<u>Land</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2010, net of accumulated depreciation and amortization	P 488,571,495	P 23,353,303	P 257,763,964	P 36,091,683	P 105,072,233	P 39,028,386	P 164,684,194	P 585,390,519	P 1,699,955,777
Additions	85,526,635	9,502,314	170,528,561	6,125,436	38,770,472	16,369,323	37,411,000	402,997,418	767,231,159
Transfers	397,071,725	539,542	68,066,304	( 19,003,223)	44,769,336	5,572,908	-	( 497,016,592)	-
Cost of asset disposed	-	-	-	-	-	( 443,483)	-	-	( 443,483)
Accumulated depreciation of asset disposed	-	( 13,145)	-	-	-	201,508	-	-	188,363
Depreciation and amortization charges for the year	( 59,324,590)	( 3,365,439)	( 6,677,139)	( 6,818,118)	( 24,743,114)	( 7,960,256)	-	-	( 108,888,656)
Balance at December 31, 2010, net of accumulated depreciation and amortization	<u>P 911,845,265</u>	<u>P 30,016,575</u>	<u>P 489,681,690</u>	<u>P 16,395,778</u>	<u>P 163,868,927</u>	<u>P 52,768,386</u>	<u>P 202,095,194</u>	<u>P 491,371,345</u>	<u>P 2,358,043,160</u>
Balance at January 1, 2009, net of accumulated depreciation and amortization	P 55,471,356	P 12,575,948	P 209,694,898	P 27,390,330	P 75,808,708	P 27,151,920	P 134,853,747	P 338,399,426	P 881,346,333
Additions	342,884,381	13,343,087	66,519,037	13,624,912	50,927,017	23,302,461	29,830,447	355,549,968	895,981,310
Transfers	108,558,875	-	-	-	-	-	-	( 108,558,875)	-
Cost of asset disposed	-	-	-	( 1,735,943)	-	-	-	-	( 1,735,943)
Accumulated depreciation of asset disposed	-	-	-	1,618,777	-	-	-	-	1,618,777
Depreciation and amortization charges for the year	( 18,343,117)	( 2,565,732)	( 18,449,971)	( 4,806,393)	( 21,663,492)	( 11,425,995)	-	-	( 77,254,700)
Balance at December 31, 2009, net of accumulated depreciation and amortization	<u>P 488,571,495</u>	<u>P 23,353,303</u>	<u>P 257,763,964</u>	<u>P 36,091,683</u>	<u>P 105,072,233</u>	<u>P 39,028,386</u>	<u>P 164,684,194</u>	<u>P 585,390,519</u>	<u>P 1,699,955,777</u>

Construction in progress pertains to accumulated costs incurred on the various depot facilities and retail stations being constructed as part of the Group's expansion program, including capitalized borrowing costs of P35.2 million and P37.7 million in 2010 and 2009, respectively, representing the actual borrowing costs incurred on borrowings obtained to fund the construction project. The capitalized rate used was 10% in 2010 and 8.5% in 2009.

Certain property and equipment with an aggregate carrying value of P37,736,410 and P30,656,433 as of December 31, 2010 and 2009, respectively, are mortgaged with local banks (see Note 15).

The amount of depreciation and amortization is allocated as follows:

	Note	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cost of services	18.2	<b>P 9,251,000</b>	P 9,200,153	P -
Selling and administrative expenses		<u><b>99,637,656</b></u>	<u>68,054,547</u>	<u>58,801,456</u>
	19	<u><b>P 108,888,656</b></u>	<u>P 77,254,700</u>	<u>P 58,801,456</u>

### 13. LAND HELD FOR FUTURE DEVELOPMENT

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

Certain land with carrying value of P174.6 million as of December 31, 2010 and 2009 are used as collaterals for certain interest-bearing loans and borrowings (see Note 15.2).

### 14. OTHER NON-CURRENT ASSETS

The composition of this account as of December 31 is shown below:

	<u>2010</u>	<u>2009</u>
Refundable rent deposits	<b>P 41,080,138</b>	P 39,033,405
Goodwill	<b>9,344,134</b>	9,344,134
Deferred minimum lease payments	<b>6,678,050</b>	939,388
Restricted time deposits	<b>1,208,090</b>	1,180,163
Others	<u><b>1,093,810</b></u>	<u>1,028,784</u>
	<u><b>P 59,404,222</b></u>	<u>P 51,525,874</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 P9.3 million represents the excess of acquisition cost over the Group's share in the fair value of identifiable net assets of the acquired subsidiaries at the date of the acquisition.

Restricted time deposits represent cash deposited with a local bank as an environmental trust fund set aside in compliance with the requirements of the Department of Environment and Natural Resources.

## 15. INTEREST-BEARING LOANS AND BORROWINGS

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

	<u>2010</u>	<u>2009</u>
Current:		
Liabilities under letters of credits and trust receipts	<b>P2,235,435,892</b>	P 1,394,432,784
Installment and notes payable	<b>454,735,133</b>	151,179,007
Mortgage payable	<u><b>13,531,140</b></u>	<u>3,195,182</u>
	<u><b>P2,703,702,165</b></u>	<u>P 1,548,806,973</u>
Non-current:		
Installment and notes payable	<b>P 450,617,655</b>	P 758,098,335
Mortgage payable	<u><b>272,732,817</b></u>	<u>11,552,425</u>
	<u><b>P 723,350,472</b></u>	<u>P 769,650,760</u>

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

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

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

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

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

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

On April 16, 2010, the Group availed the P580.0 million loan with the Land Bank of the Philippines (LBP). The loan with LBP was used to refinance the installment payable with PHINMA Group via take-out of the outstanding installment payable to PHINMA Group. The refinanced installment payable is payable for seven years with one year grace period on principal and bears an interest rate based on the prevailing LBP rate at the time of availment subject to quarterly repricing with reference to a three month PDST-F rate plus minimum spread of 2.5%. The installment payable with LBP is secured by certain industrial lots presented under land held for future development (see Note 13).

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

### ***15.3 Mortgage Payable***

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

### ***15.4 Credit Line***

The Parent Company has an available credit line of P1.21 billion under LC and TR. These lines obtained from various banks are being utilized by the Parent Company for procurement of inventories both local and foreign. The credit line is secured by the following:

- (a) Assignment of future receivables;
- (b) Suretyship of the PPHI and pledge of its share in the Parent Company;
- (c) JSS of certain stockholders; and,
- (d) Negative pledge over the remaining shares of PPHI in Parent Company in favor of the Bank.

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

## 16. TRADE AND OTHER PAYABLES

This account consists of:

	<u>2010</u>	<u>2009</u>
Trade payables	<b>P 1,284,113,044</b>	P 970,629,295
Advances from customers and locators	<b>177,881,535</b>	20,120,000
Accrued expenses	<b>135,607,410</b>	53,181,430
Others	<b><u>39,691,372</u></b>	<u>15,329,914</u>
	<b><u>P 1,637,293,361</u></b>	<b><u>P 1,059,260,639</u></b>

The advances from customers and locators include option money from two different locators amounting to P47.0 million and P20.0 million in 2010 and 2009, respectively. The said locators has the right and option to purchase subject properties under the terms and condition agreed by the said locator and the Group. However, in the event that the said locator does not exercise its right to purchase the subject properties, the option money shall be refunded to the said locator plus interest at the rate equivalent to the prevailing treasury bill rate plus 2% per annum. In 2009, certain locator exercised its right and option to purchase the subjected properties during 2010.

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

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



## 17. OTHER NON-CURRENT LIABILITIES

This account consists of:

	<u>Note</u>	<u>2010</u>	<u>2009</u>
Security deposits		<b>P 53,072,027</b>	P 34,750,000
Retirement benefit obligation	21.2	<b>5,520,942</b>	4,245,935
Unearned rent		<b>3,195,279</b>	3,944,044
Others		<b>823,733</b>	780,387
		<b><u>P 62,611,981</u></b>	<b><u>P 43,720,366</u></b>

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

## 18. COST OF SALES AND SERVICES

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

	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cost of fuels and lubricants sold		<b>P 13,369,726,710</b>	P 5,140,984,927	P 4,192,696,752
Cost of real estate sold	19	<b>82,133,000</b>	9,437,055	-
Cost of services		<b>24,760,739</b>	30,651,958	1,499,000
	19	<b><u>P 13,476,620,449</u></b>	<b><u>P 5,181,073,940</u></b>	<b><u>P 4,194,195,752</u></b>

### 18.1 Cost of Fuels and Lubricants Sold

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

	Note	2010	2009	2008
Inventories at beginning of year	P	457,924,415	P 155,966,344	P 178,059,559
Net purchases during the year		<u>13,963,461,223</u>	<u>5,442,942,998</u>	<u>4,170,603,537</u>
Goods available for sale		<u>14,421,385,638</u>	<u>5,598,909,342</u>	<u>4,348,663,096</u>
Inventories at end of year	8	( <u>1,051,658,928</u> )	( <u>457,924,415</u> )	( <u>155,966,344</u> )
		<u>P 13,369,726,710</u>	<u>P 5,140,984,927</u>	<u>P 4,192,696,752</u>

### 18.2 Cost of Services

Details of cost of services are shown below:

	Note	2010	2009	2008
Depreciation	12	P 9,251,000	P 9,200,153	P -
Taxes and licenses		4,337,740	3,924,205	-
Fuel, gas and lubricants		3,999,199	2,848,836	852,478
Salaries and employees benefits		3,427,428	3,768,381	327,496
Security services		1,000,410	967,202	-
Insurance		684,057	805,202	-
Outside services		633,569	7,164,278	-
Travel and transportation		497,908	1,130,292	319,026
Others		<u>929,428</u>	<u>843,409</u>	<u>-</u>
		<u>P 24,760,739</u>	<u>P 30,651,958</u>	<u>P 1,499,000</u>

## 19. OPERATING EXPENSE BY NATURE

The details of operating expenses by nature are shown below:

	Notes	2010	2009	2008
Cost of sales:				
Fuels		<b>P 13,118,404,866</b>	P 4,985,388,086	P 4,079,631,960
Lubricants		<b>251,321,844</b>	155,596,901	113,064,791
Cost of real estate sold	18	<b>82,133,000</b>	9,437,055	-
Rent	25.3, 29.3	<b>132,897,489</b>	61,279,012	30,872,124
Salaries and employee benefits	21.1	<b>113,791,031</b>	78,924,498	53,134,981
Depreciation and amortization	12	<b>108,888,656</b>	77,254,700	58,801,456
Advertising and promotions		<b>44,805,419</b>	36,989,916	12,437,160
Trucking charges		<b>38,608,301</b>	20,144,572	12,573,778
Taxes and licenses		<b>38,046,829</b>	20,887,782	2,945,398
Fuel, oil and lubricants		<b>36,898,326</b>	24,383,930	18,797,840
Repairs and maintenance		<b>24,564,900</b>	14,852,411	5,294,260
Insurance		<b>24,968,015</b>	8,464,370	2,698,250
Travel and transportation		<b>20,894,225</b>	16,834,830	10,712,495
Professional fees		<b>20,664,405</b>	16,313,650	6,089,715
Utilities		<b>17,539,943</b>	11,614,548	6,833,648
Office supplies		<b>12,959,152</b>	10,959,196	10,423,649
Service fee		<b>12,866,913</b>	-	456,265
Representation		<b>9,955,974</b>	6,600,378	4,230,721
Security fees		<b>8,155,774</b>	5,428,832	3,292,615
Outside services		<b>1,258,526</b>	8,785,030	2,572,710
Sales commissions		<b>873,408</b>	244,818	4,191,711
Miscellaneous		<b>30,579,824</b>	18,910,571	10,961,523
		<b><u>P 14,151,076,820</u></b>	<b><u>P 5,589,295,466</u></b>	<b><u>P 4,450,017,050</u></b>

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

	Note	2010	2009	2008
Cost of sales and services	18	<b>P 13,476,620,449</b>	P 5,181,073,940	P 4,194,195,752
Selling and administrative expenses		<b><u>674,456,371</u></b>	<b><u>408,221,526</u></b>	<b><u>255,821,298</u></b>
		<b><u>P 14,151,076,820</u></b>	<b><u>P 5,589,295,466</u></b>	<b><u>P 4,450,017,050</u></b>

## 20. FINANCE INCOME (COSTS)

The breakdown of these accounts follows:

### 20.1 Finance Costs

	Notes	2010	2009	2008
Interest expense from bank loans and other borrowings	15	P 229,169,176	P 102,099,397	P 42,549,183
Impairment losses on trade and other receivable	7	56,530,443	1,190,410	-
Bank charges		30,687,459	11,279,326	3,312,235
Foreign currency losses - net		-	-	189,112
		<u>P 316,387,078</u>	<u>P 114,569,133</u>	<u>P 46,050,530</u>

### 20.2 Finance Income

Foreign currency gains – net		P 95,755,842	P -	P -
Interest income from cash in banks	6	<u>5,997,242</u>	<u>5,021,908</u>	<u>25,328,030</u>
		<u>P 101,753,084</u>	<u>P 5,021,908</u>	<u>P 25,328,030</u>

## 21. SALARIES AND EMPLOYEE BENEFITS

### 21.1 Salaries and Employee Benefits Expense

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

	Note	2010	2009	2008
Salaries and wages		P 81,661,604	P 60,235,468	P 41,190,831
Employee welfare and other benefits		22,791,841	12,155,303	6,989,985
13 <sup>th</sup> month pay and bonuses		8,062,578	5,258,719	3,826,987
Post-employment benefits	21.2	<u>1,275,008</u>	<u>1,275,008</u>	<u>1,127,178</u>
		<u>P 113,791,031</u>	<u>P 78,924,498</u>	<u>P 53,134,981</u>

## 21.2 Post-employment Benefits

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

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

	<u>2010</u>	<u>2009</u>
Present value of obligation	<b>P 6,251,207</b>	P 4,976,200
Unrecognized actuarial losses	<b>( 730,265)</b>	( 730,265)
	<b><u>P 5,520,942</u></b>	<b><u>P 4,245,935</u></b>

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

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	<b>P 4,976,200</b>	P 2,418,400
Current service cost	<b>900,155</b>	928,400
Interest cost	<b>374,852</b>	374,852
Actuarial loss	<b>-</b>	1,254,548
Balance at end of year	<b><u>P 6,251,207</u></b>	<b><u>P 4,976,200</u></b>

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

	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current service cost	<b>P</b>	<b>900,156</b>	P 928,400	P 865,425
Interest cost		<b>374,852</b>	374,852	232,928
Actuarial loss (gain) recognized during the year		<b>-</b>	<b>( 28,244)</b>	<b>28,825</b>
	<b>21.1</b>	<b><u>P 1,275,008</u></b>	<b><u>P 1,275,008</u></b>	<b><u>P 1,127,178</u></b>

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

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

	<u>2010</u>		<u>2009</u>		<u>2008</u>
Present value of the obligation	<b>P 6,251,207</b>	P	4,976,200	P	2,418,400
Experience adjustments arising on plan liabilities	-		-		-

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

	<u>2010</u>	<u>2009</u>
Discount rate	<b>10.44%</b>	10.44%
Expected rate of salary increase	<b>10.00%</b>	10.00%

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

The Group will fund the retirement benefit obligation in 2011.

## 22. REGISTRATION WITH THE BOARD OF INVESTMENTS (BOI)

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

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

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

- (a) Income tax holiday (ITH) for five years from November 16, 2005 without extension or bonus year from the date of registration;
- (b) Additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to number of workers set by the board of not more than US\$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH;

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

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

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

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

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

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

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

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

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

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

### **23. REGISTRATION WITH DAVAO CITY INVESTMENT INCENTIVE CODE OF 1994**

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

- (a) Exemption from payment of building permit fees, and other fees and charges;
- (b) Exemption from payment of mayor's permit fees, local business sales taxes, and other local fees and charges imposed under existing ordinances for a period of three years to start on the first day of operations; and,
- (c) Exemption from payment of the basic real property tax but excluding the barangay share for two years from the effectivity (accrual) of the property tax.



## 24. TAXES

### 24.1 Current and Deferred Tax

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	(P 13,234,310)	(P 1,587,244)	P -
Final tax at 20%	( 127,441)	( 108,651)	( 4,926)
	<u>( 13,361,751)</u>	<u>( 1,695,895)</u>	<u>( 4,926)</u>
Deferred tax income:			
Deferred tax income relating to net operating loss carryover (NOLCO)	6,704,683	6,959,670	9,021,080
Provision of impairment loss	4,901,214	-	-
Reversal of NOLCO	( 1,650,871)	( 369,088)	-
Deferred tax relating to reversal of temporary difference	-	( 283,380)	-
Relating to tax application of NOLCO	-	( 26,915)	( 1,409,842)
Deferred tax resulting from reduction in tax rate	-	-	( 1,775,005)
	<u>9,955,026</u>	<u>6,280,287</u>	<u>5,836,233</u>
	<u>(P 3,406,725)</u>	<u>P 4,584,392</u>	<u>P 5,831,307</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Tax on pretax income (loss) at 30% in 2010 and 2009, and 35% in 2008	(P 1,766,034)	P 4,868,812	P 7,604,209
Adjustment for income subjected to lower income tax rates	67,715	54,324	3,693
Reversal of NOLCO	( 1,650,871)	( 369,088)	-
Non-deductible interest expense	( 57,535)	30,344	( 1,590)
Reduction in tax rate	-	-	( 1,775,005)
Tax income (expense) reported in profit or loss	<u>(P 3,406,725)</u>	<u>P 4,584,392</u>	<u>P 5,831,307</u>

The Parent Company's availment on income tax holiday pertaining to its existing facilities expired in November 2010. Tax income for the year 2010 pertains to the income of subsidiaries and portion of the Parent Company's income subjected to income tax (see Note 22). The tax income for the years 2009 and 2008 pertains to the subsidiaries.

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

	Consolidated Statements of Financial Position		Consolidated Statements of Comprehensive Income	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
NOLCO	<b>P 14,822,265</b>	P 17,213,693	<b>P 5,513,689</b>	P 6,563,667
Impairment loss	<b>4,441,337</b>	-	<b>4,441,337</b>	-
Retirement benefit obligation	-	283,380	-	-
Payment of retirement benefits	-	(283,380)	-	(283,380)
Deferred Tax Income			<b>P 9,955,026</b>	P 6,280,287
Deferred Tax Assets	<b><u>P 19,263,602</u></b>	<u>P 17,213,693</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>
2010	P 23,881,864	P 7,164,560	2013
2009	23,198,899	6,959,670	2012
2008	<u>2,326,788</u>	<u>698,035</u>	2011
	<b><u>P 49,407,551</u></b>	<b><u>P 14,822,265</u></b>	

#### ***24.2 Optional Standard Deduction***

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

In 2010 and 2009, the Group opted to continue claiming itemized deductions.

#### ***24.3 Change in Applicable Tax Rates***

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

## 25. RELATED PARTY TRANSACTIONS

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

### 25.1 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.

Amount of Transactions			Outstanding Balances	
2010	2009	2008	2010	2009

Sale of goods:

Other related party	<u>P 94,645,855</u>	<u>P 93,491,124</u>	<u>P 20,098,364</u>	<u>P106,583,916</u>	<u>P 54,149,498</u>
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The outstanding receivables from sales of goods are presented as part of Trade Receivables under Trade and Other Receivables account in the statements of financial position (see Note 7). Subsequent to the balance sheet date, the Group was able to collect totaling P77.0 million from the outstanding balance.

### 25.2 Purchase of Services

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

Amount of Transactions			Outstanding Balances	
2010	2009	2008	2010	2009

Purchase of services:

Other related party	<u>P359,297,083</u>	<u>P328,621,795</u>	<u>P168,480,527</u>	<u>P 4,874,025</u>	<u>P 27,847,938</u>
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The related outstanding payables for services obtained in 2010 and 2009 are presented as part of Trade Payables under Trade and Other Payables account (see Note 16).

In addition, the Parent Company advances a certain amount to a certain related party for the purchase of services. The amount is credited upon the performance of the contractual obligation by the certain related party. Outstanding balances amounted to P88.6 million and P50.1 million in 2010 and 2009, respectively, and is presented as part of Advances to Suppliers under Trade and Other Receivables account in the consolidated statements of financial position (see Note 7). In 2011, the advances to the said related party was reduced by P23.9 million.

### 25.3 Rentals

The Group has an operating lease agreement with Udenna Corporation, the ultimate parent company. Total rent expense incurred in the years 2010, 2009 and 2008 is P7.3 million, P3.8 million, and P4.8 million, respectively and is presented as part of Rent expense in profit or loss (see Note 19).

#### **25.4 Due from Related Parties**

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

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

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	<b>P 14,421,693</b>	P 13,302,981
Additions	<b>331,634</b>	1,118,712
Collections	<b>( 2,832)</b>	( - )
Balance at end of year	<b><u>P 14,750,495</u></b>	<b><u>P 14,421,693</u></b>

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

The Parent Company also obtains non-interest bearing cash advances from PPHI. Outstanding advances as of December 31, 2010 and 2009 amounted to P53,106,188 and P53,114,682, respectively, and are presented as Due to Parent Company in the consolidated statements of financial position.

#### **25.5 Advances Subject for Liquidation**

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

#### **25.6 Loan Collateral**

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

#### **25.7 Key Management Compensations**

The compensations of key management personnel are broken down as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Salaries and wages	<b>P 25,137,801</b>	P 19,699,625	P 17,770,685
13 <sup>th</sup> month pay and bonuses	<b>3,303,149</b>	2,761,963	2,410,405
Honoraria and allowances	<b>1,997,058</b>	1,695,559	1,647,060
Post-employment benefits	<b><u>281,665</u></b>	<u>318,243</u>	<u>376,978</u>
	<b><u>P 30,719,673</u></b>	<b><u>P 24,475,390</u></b>	<b><u>P 22,205,128</u></b>

## 26. EQUITY

### 26.1 Capital Stock

Capital stock consists of:

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

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

The preferred shares shall have the following features:

- (a) Non-convertible into common shares;
- (b) Non participating in any other corporation activities or other further dividends, non-voting except in cases specified by law;
- (c) No pre-emptive rights over the holders of common shares as to distribution of net assets in the event of dissolution or liquidation and in the payment of dividends at a specified rate. The Board of Directors shall determine its issued value at the time of issuance and shall determine its dividend rates and the dividends shall be paid cumulatively; and,

- (d) The preferred shares shall be redeemable at the Parent Company's option under such terms as the Board of Directors may provide at the time of issuance. It shall also be re-issuable when fully redeemed.

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

- (a) Dividends on the Preferred Shares shall have a fixed rate of 11.50% per annum calculated in respect of each share with reference to the Issue Price thereof in respect to each dividend period.
- (b) Dividends shall be payable September 21, December 21, March 21 and June 21 of each year (each a "Dividend Payment Date"). The dividends on the Preferred Shares shall be calculated on a 30/360 day basis and shall be paid quarterly in arrears on the last day of each 3-month dividend period (each a Dividend Payment Date), as and if declared by the Board of Directors. If the Dividend Payment Date is not a Banking Day, dividends shall be paid on the next succeeding Banking Day, without adjustment as to the amounts of dividends to be paid.
- (c) The Preferred Shares shall have priority in the payment of dividends at the stipulated rate at the time of issuance and in the distribution of corporate assets in the event of liquidation and dissolution of the Parent Company. As such, the Board of Directors to the extent permitted by law shall declare dividends each quarter sufficient to pay the equivalent dividend. Dividends on the shares shall be cumulative. If for any reason the Parent Company's Board of Directors does not declare a dividend on the Preferred Shares for a particular dividend period, the Parent Company shall not pay a dividend for said dividend period. However, on any future Dividend Payment Date on which dividends are declared holders of the shares shall receive the dividends accrued and unpaid to the holders of the Preferred Shares prior to such Dividend Payment Date. Holders of Preferred Shares shall not be entitled to participate in any other further dividends beyond the dividends specifically payable on the Preferred Shares.

Moreover, the subscription agreement requires that the Parent Company undertakes to maintain a long-term debt to equity ratio of 1:1 throughout the life of the preferred shares.

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

## ***26.2 Additional Paid-in Capital***

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

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

In 2007, the Parent Company listed its shares of stock with PSE. Premiums received in excess of the par value during the public offering amounting to P227,114,249 were recorded under Additional Paid-in Capital account in the 2007 consolidated statement of financial position.

### ***26.3 Deposits on Future Stock Subscriptions***

In 2009, the Parent Company received subscriptions amounting to P44,625,000. Pending the Parent Company and investor agreement as to the number of shares to be issued, the amount received was presented as Deposits on Future Stock Subscriptions in the consolidated statement of financial position. In 2010, the investor withdrew the investment.

### ***26.4 Treasury Shares – At Cost***

The details of this account are as follows:

	Shares			Amount		
	2010	2009	2008	2010	2009	2008
Balance at beginning of year	3,849,000	3,849,000	795,000	P 17,252,140	P 17,252,140	P 5,639,300
Purchases (issuance) during the year	( 3,849,000)	-	3,054,000	( 17,252,140)	-	11,612,840
Balance at end of year	-	3,849,000	3,849,000	P -	P 17,252,140	P 17,252,140

### ***26.5 Retained Earnings***

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

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

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

## 26.6 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and,
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

	<u>2010</u>	<u>2009</u>
Total liabilities	<b>P 5,180,064,167</b>	P 3,474,553,420
Total equity	<u><b>2,461,207,725</b></u>	<u>1,528,859,522</u>
Debt-to-equity ratio	<u><b>2.10 : 1.0</b></u>	<u>2.27 : 1.0</u>

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

The Group's goal in capital management is to maintain a debt-to-equity structure ratio of 2.7 to 1.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

## 27. BASIC EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net profit pertaining to common shares	<b>P 413,138,509</b>	P 751,476,659	P 150,288,738
Divided by weighted average number of outstanding common shares	<u><b>288,911,236</b></u>	<u>216,068,147</u>	<u>164,993,432</u>
Earnings per share	<u><b>P 1.43</b></u>	<u>P 3.48</u>	<u>P 0.91</u>

The Parent Company does not have dilutive shares as of December 31, 2010, 2009 and 2008. Accordingly, no diluted earnings per share was computed by the Group.



## 28. SEGMENT REPORTING

### ***28.1 Business Segments***

In identifying its operating segments, management generally follows the Group's service lines, which represent the main products and services provided by the Group, namely fuels, lubricants, depot services and real estate. These are also the bases of the Group in reporting its primary segment information.

- (a) The fuels segment is involved in the trading, supply and distribution of petroleum products to its retail service stations and commercial customers.
- (b) The lubricants segment is involved in the trading, supply and distribution of automotive lubes and car care products.
- (c) The depot services segment is involved in the leasing of storage space in the Group's terminal depot, hauling of Jet-A1 fuels to airports and refuelling of aircrafts.
- (d) The real estate segment is involved in the selling of parcels of land.

### ***28.2 Segment Assets and Liabilities***

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property and equipment, and other assets, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts, trust receipts, wages, and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

### ***28.3 Intersegment Transactions***

Segment revenues, expenses and performance include sales and purchases between segments and between geographical segments. Such sales and purchases are eliminated upon consolidation.

The tables presented in the next pages present revenue and profit information regarding business segments of the Group for the years ended December 31, 2010, 2009 and 2008 and certain asset and liability information regarding industry segments at December 31, 2010, 2009 and 2008 (in thousands).

	Fuels			Lubricants			Depot			Real Estate			Eliminations			Consolidated		
	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008
TOTAL REVENUES																		
Sales to external customers	P 13,346,409	P 5,523,238	P 4,415,876	P 183,420	P 195,950	P 151,066	P 194,144	P 143,718	P 48,275	P 68,215	P 10,146	P -	P -	P -	P -	P 14,792,188	P 5,873,052	P 4,615,217
Intersegment sales	107,013	3,396	101,355	-	-	-	64,808	48,508	34,256	-	-	-	( 171,821)	( 51,904)	( 135,611)	-	-	-
Total revenues	P 14,453,422	P 5,526,634	P 4,517,231	P 183,420	P 195,950	P 151,066	P 258,952	P 192,226	P 82,531	P 68,215	P 10,146	P -	(P 171,821)	(P 51,904)	(P 135,611)	P 14,792,188	P 5,873,052	P 4,615,217
RESULTS																		
Segment results	P 785,287	P 304,804	P 269,599	(P 52,085)	P 8,505	P 7,778	P 65,943	P 17,226	P 23,434	P 13,787	P 5,125	P -	(P 171,821)	(P 51,904)	(P 135,611)	P 641,111	P 283,756	P 165,200
Unallocated expenses																-	-	-
Income from operations																641,111	283,756	165,200
Unallocated income:																		
Excess of fair value of net assets acquired over acquisition cost																-	573,389	-
Finance costs	( 237,927)	( 79,676)	( 44,462)	( 5,412)	( 3,902)	( 829)	( 71,943)	( 30,991)	( 760)	( 1,105)	-	-	-	-	-	( 316,387)	( 114,569)	( 46,051)
Finance income	99,794	4,986	24,601	19	13	9	167	23	718	1,774	-	-	-	-	-	101,754	5,022	25,328
Others	443	259	( 20)	-	-	-	-	-	-	3,699	-	-	-	-	-	4,142	259	( 20)
																210,491	464,101	( 20,743)
Income before tax and pre-acquisition loss																430,620	747,857	144,457
Pre-acquisition loss																-	( 965)	-
Profit before tax																430,620	746,892	144,457
Tax income (expense)	( 3,869 )	507	( 1,528)	-	( 398)	( 155)	5,909	6,432	7,515	( 5,446)	( 1,956)	-	-	-	-	( 3,406)	4,585	5,832
Net profit																P 427,214	P 751,477	P 150,289

	Fuels			Lubricants			Depot			Real Estate			Eliminations			Consolidated		
	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008
ASSETS AND LIABILITIES																		
Segment assets	P 6,710,225	P 2,700,447	P 1,461,210	P 54,942	P 65,224	P 105,464	P 187,121	P 1,632,265	P 801,407	P 688,985	P 605,477	P -	P -	P -	P -	P 7,641,272	P 5,003,413	P 2,368,081
Segment liabilities	4,727,954	2,157,285	1,140,993	83,788	55,134	94,158	276,544	1,210,961	442,172	91,778	51,173	-	-	-	-	5,180,064	3,474,553	1,677,323
OTHER SEGMENT INFORMATION																		
Capital expenditures	P 270,306	P 201,633	P 259,502	P 9,815	P 5,680	P 8,775	P 396,013	P 378,927	P 259,057	P 90,842	P 309,741	P -	P -	P -	P -	P 766,976	P 895,981	P 527,333
p Depreciation and amortization	48,355	33,002	35,393	7,528	4,781	1,420	43,385	30,040	21,989	9,621	9,432	-	-	-	-	108,888	77,255	58,802
Impairment losses	40,215	1,190	-	-	-	-	-	-	-	-	-	-	-	-	-	40,215	1,190	-

## 29. COMMITMENTS AND CONTINGENCIES

### *29.1 Capital Commitments*

As of December 31, 2010, the Group has commitments of more than P1.2 billion for expansion on petroleum retail network, depot, terminalling and logistics facilities, information technology infrastructure and other major expansions related to its business development. The Group has a network of 161 opened retail service stations as of December 31, 2010. An additional of 38 other retail service stations were under various stages of completion as of December 31, 2010.

In 2010, the Group plans to expand further its petroleum retail service stations and carry out its investments in its subsidiaries to put up depot and terminalling facilities in strategic locations and complete its chain of logistical support to strengthen its foothold in the industry.

### *29.2 Letters of Credits*

As of December 31, 2010, 2009 and 2008, the Parent Group has unused letters of credit amounting to P1.2 billion, P0.5 billion, and P0.3 billion, respectively.

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

The Group is a lessee under several operating leases. The leases have terms ranging from 2 to 5 years, with renewal options, and include annual escalation rates of 2% to 10%. The future minimum rentals payable under these cancelable operating leases are presented as follows:

	<u>2010</u>	<u>2009</u>
Within one year	<b>P 107,693,075</b>	P 33,691,867
After one year but not more than five years	<b>312,372,494</b>	126,799,566
More than five years	<u><b>799,718,282</b></u>	<u>272,101,048</u>
	<u><b>P 1,219,783,851</b></u>	<u>P 432,592,481</u>

Total rent expense for the years 2010, 2009 and 2008 amounted to P132,897,802, P61,279,012, and P30,872,124, respectively (see Note 19).

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

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

	<u>2010</u>	<u>2009</u>
Within one year	<b>P 8,188,030</b>	P 23,525,871
After one year but not more than five years	<b>19,188,870</b>	26,738,089
More than five years	<u><b>3,256,198</b></u>	<u>4,327,125</u>
	<u><b>P 30,633,098</b></u>	<u>P 54,591,085</u>

Rent income for 2010, 2009 and 2008 amounting to P43,021,616, P34,276,110, and P17,237,494, respectively, is presented as part of Fuel Service, Storage Income and Other Revenues account in the consolidated statements of comprehensive income.

#### ***29.5 Others***

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not given recognition in the consolidated financial statements. As of December 31, 2010, 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.

### **30. EXCESS OF FAIR VALUE OVER ACQUISITION COST**

In March 2009, PPPI acquired 100% interest in BIPC. PPPI acquired the BIPC's net assets with a fair value of P1.2 billion on the date of the acquisition for a consideration of P658.8 million, of which P540.0 million was through installment payments (see Note 15.2).

The excess of the fair value of the nets assets of BIPC over the acquisition cost amounting to P573.4 million is presented in the consolidated statement of comprehensive income as Excess of Fair Value of Net Assets Acquired Over Acquisition Cost. The real properties of BIPC which is composed of land held for sale, land held for future development and port facilities were appraised by an independent appraiser. The fair values of the said properties are determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between the knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transactions as at the valuation date.

CERTIFICATION

I, **SOCORRO ERMAC CABREROS**, of legal age, Filipino, married and a resident of Davao City, Philippines, after having been sworn to in accordance with law, hereby depose and say:

1. I am the Corporoate Secretary of **PHOENIX PETROLEUM PHILIPPINES, INC.**, a domestic corporation duly existing and registered under and by virtue of the laws of the Republic of the Philippines with office address located along Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, Philippines;
2. I hereby certify the attendance of each director of the Company in the board meetings conducted during the year 2010, as may be applicable:

Names of Director	January 18, 2010	April 12, 2010	July 15, 2010	December 3, 2009	December 23, 2010
Domingo T. Uy	P	P	P	P	P
Dennis A. Uy	P	P	P	P	P
Jose Manuel R. Quimson	P	P	P	P	P
Romeo B. De Guzman	P	P	P	P	P
Socorro T. Ermac Cabreros	N/A	N/A	P	P	P
J.V. Emmanuel A. De Dios	P	P	A	P	P
Diana Pardo Aguilar	N/A	N/A	N/A	P	P
Ricardo S. Pascua	P	A	P	P	P
Monico V. Jacob	P	P	A	P	P

P - Present

A - Absent

N/A - Not Applicable (either not yet a member or no longer a member of the Board)

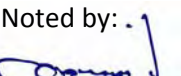
3. This certification is issued in compliance with the reportorial requirement of the Securities and Exchange Commission.

IN WITNESS WHEREOF, I have hereunto set my hand this **13<sup>th</sup> day of January, 2011** in Davao City, Philippines.



SOCORRO ERMAC CABREROS

Corporate Secretary

Noted by: 

Domingo T. Uy

Chairman

SUBSCRIBED AND SWORN TO this **13<sup>th</sup> day of January 2011** in Davao City Philippines with affiants exhibiting to me their competent evidence of identity as follows:

Name	Valid ID
1. Socorro Ermac Cabreros	SSS ID No. 09-1617272-0
2. Domingo T. Uy	SSS ID No. 09-0185238-6

The affiants further attest that the foregoing is true and correct.

Doc. No. 421

Page No. 85

Book No. 29

Series of 2011



ATTY. KENNETH L. DABI

Notary Public for Davao City

Expires on December 31, 2012

Serial No. 181-2011

PTR No. 9811967; 12-22-10; D.C.

IBP No. 808267; 12-16-10; D.C.

Roll of Attorneys No. 47866


Republic of the Philippines}  
City of Davao } S.S.

CERTIFICATION

I, **SOCORRO ERMAC CABREROS**, of legal age, Filipino, married and a resident of Davao City, Philippines, after having been sworn to in accordance with law, hereby depose and say:

- 1. I am the Corporate Secretary of PHOENIX PETROLEUM PHILIPPINES, INC., a domestic corporation duly existing and registered under and by virtue of the laws of the Republic of the Philippines with office address located along Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, Philippines;
- 2. I hereby certify that in the year 2010, the Company has substantially complied with the provisions of its Manual of Corporate Governance
- 3. This certification is issued in compliance with the reportorial requirement of the Securities and Exchange Commission.

IN WITNESS WHEREOF, I have hereunto set my hand this **13<sup>th</sup> day of January, 2011** in Davao City, Philippines.

  
**SOCORRO ERMAC CABREROS**  
Corporate Secretary

Noted by:

  
**Domingo T. Uy**  
Chairman


SUBSCRIBED AND SWORN TO this **13<sup>th</sup> day of January 2011** in Davao City Philippines with affiants exhibiting to me their competent evidence of identity as follows:

	Name	Valid ID
1.	Socorro Ermac Cabreros	SSS ID No. 09-1617272-0
2.	Domingo T. Uy	SSS ID No. 09-0185238-6

The affiants further attest that the foregoing is true and correct.

Doc. No. 423  
Page No. 85  
Book No. 29  
Series of 2011



  
**ATTY. KENNETH L. DABI**  
Notary Public for Davao City  
Expires on December 31, 2012  
Serial No. 181-2011  
PTR No. 9811967; 12-22-10; D.C.  
IBP No. 808267; 12-16-10; D.C.  
Roll of Attorneys No. 47866



## **NOTICE OF ANNUAL STOCKHOLDERS' MEETING**

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

**Friday, March 11, 2011, 2:00 PM  
Jade Room, Marco Polo Hotel  
Davao City**

The agenda for the Meeting shall be, as follows:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held last July 15, 2010
4. Report of the President and Chief Executive Officer
5. Report of the Chief Finance Officer
6. Approval of the 2010 Audited Financial Statements and 2010 Annual Report
7. Approval of Corporate Actions:
  - a) Proposed acquisition of Subic Petroleum Transport And Trading Philippines, Inc.;
  - b) Proposed investment of the Company's funds to form and incorporate a new corporation, of which the Company shall subscribe to majority of the shares and Chelsea Shipping as minority shareholder, for purposes of acquiring and operating a new tanker vessel to boost and support the Company's fuel importation, depot expansion and the corresponding increase in fuel capacity of its depot terminals;
  - c) Proposed Amendments of the Article II, Section 1 of the By-Laws of the Company, to wit;

**"Section 1. Annual/Regular Meetings – The annual/regular meetings of stockholders shall be held at the principal office on any day in March of each year.**

8. Declaration of thirty percent (30%) stock dividend
9. Ratification and Confirmation of all Acts and Resolutions of the Board and Management executed in the normal course of business covering the period of June 1, 2010 until January 31, 2011
10. Election of the Members of the Board of Directors
11. Appointment of External Auditor
12. Other Matters
13. Adjournment

## **PHOENIX PETROLEUM PHILIPPINES, INC.**





Only stockholders of record as of February 14, 2011 will be entitled to notice of and vote at, this meeting. Registration for the Meeting begins at 12:00 PM on March 11, 2011.

If you will not be able to attend the Meeting but would like to be represented thereat, you may submit your proxy form, duly signed and accomplished, to the Corporate Secretary at Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, Philippines, no later than 5:00PM on March 1, 2011. Corporate stockholders should also provide a notarized secretary's certificate indicating their number of shares and attesting to the appointment of the corporation's proxy for the Meeting as well as the execution and delivery of the proxy form. Any proxies received will be validated by the Company's Corporate Secretary on March 4, 2011 at its principal office at Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, Philippines.

**THE COMPANY IS NOT SOLICITING PROXIES.**

Davao City, Philippines, February 17, 2011.

A handwritten signature in black ink, appearing to read "Socorro T. Ermac Cabreros".

SOCORRO T. ERMAC CABREROS  
Corporate Secretary

**PHOENIX PETROLEUM PHILIPPINES, INC.**

Head Office: Phoenix Bulk Depot, Barangay Pampanga, Lanang,  
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