PHOENIX
Fuels Life

27 July 2012

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

Dear *Ms. Encarnacion:*

Pursuant to our Special Stockholders' Meeting on 06 September 2012, we are herewith submitting our SEC Form 20-IS or Definitive Information Statement as approved by the Securities & Exchange Commission in accordance with the Securities Regulations Code and the Revised Disclosure Rules.

Thank you and warm regards.

Very truly yours,

Socorro Ermac - Cabreros.

Atty. Socorro Ermac Cabreros
Corporate Secretary

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NOTICE AND AGENDA

A Special Stockholders' Meeting of P-H-O-E-N-I-X Petroleum Philippines, Inc. will be held on the following date and place:

Thursday, 06 September 2012, 2:00 PM
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 08 March 2012
4. Update on the Operation and Financial Highlights
5. Approval of Corporate Actions:

   a) Proposed Amendment of Article II on Secondary Purposes and Article VI on the number of directors contained in the Company's Articles of Incorporation

   b) Proposed Amendment of Article III Section 1(a) of the Company's By-laws on Composition of the Board of Directors

   c) Proposed Issuance of Php180,000,000.00 warrants in relation to the Issuance of Php500,000,000.00 Convertible Notes to BDO Unibank, Inc.

   d) Proposed Acquisition of 100% shares of stock in Chelsea Shipping Corp.

6. Other Matters
7. Adjournment

All shareholders as of **07 August 2012** shall be entitled to vote on the proposed corporate actions.

SOCORRO ERMAC CABREROS
Corporate Secretary

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DAVAO OFFICE: Phoenix Bulk Depot, Lanang, Davao City, Philippines 8000
MANILA OFFICE: 25th Floor, Fort Legend Towers, 3rd Avenue corner 31st Street, Bonifacio Global City Taguig City, Philippines 1634
www.phoenixphilippines.com

COVER SHEET

A	2	0	0	2	0	7	2	8	3

S.E.C. Registration Number

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

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

(Company's Full Name)

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

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

Dennis A. Uy
Contact Person

(082) 233-0168
Company Telephone Number

Definitive Information Statement

1	2

Month

3	1

Day

Fiscal Year Ending

SEC Form 20-IS
FORM TYPE

March Month
Last Friday Day
Annual Meeting

Secondary License Type, if applicable

Dept. Requiring this Doc

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel Concerned

File Number

LCU

Document I.D.

Cashier

Remarks = pls. use black ink for scanning purposes

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [ ] Preliminary Information Statement
   [/] 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:

September 6, 2012, 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: **August 14, 2012**

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

Title of Each Class	Number of Shares
Common Shares, Php1.00 par value	927,808,617
Preferred Shares, Php 1.00 par value	5,000,000

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, 927,808,617 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 : **September 6, 2012**
Time : **2:00 p.m**.
Place : **Marco Polo Hotel**
Davao City

Mailing Address: **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**
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: **August 14, 2012**

Item 2. Dissenter's Right of Appraisal

Pursuant to Section 42 in relation to Section 82 of the Corporation Code of the Philippines, a private corporation may invest its funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized when approved by a majority of the board of directors or trustees and ratified by the stockholders represent ting at least two-thirds (2/3) of the outstanding capital stock upon written notice of the proposed investment including the time and date of such meeting provided that any dissenting stockholder shall have appraisal right as provided in this Code.

Under Section 82 of the same code, 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.

One of the proposed corporate actions is the acquisition by the Company of 100 per cent (100 %) shares of stock in Chelsea Shipping Corp. ("CSC"). Under Section 42 in relation to Section 82 of the Corporation Code, this may be one of the instances wherein a dissenting stockholder may exercise his right to appraisal.

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

(a) One of the matters to be acted upon during the Special Stockholders Meeting ("Special Meeting") is the acquisition by the Company of the 100 per cent (100 %) shares of stock in CSC.

CSC is principally owned by Udenna Management & Resources Corp. ("UMRC"). Dennis A. Uy, Jose Manuel R. Quimson, Socorro Ermac-Cabreros own one (1) share each in CSC. All of them are current directors of the Company. Dennis A. Uy and Socorro Ermac-Cabreros are also principal officers of the Company, as its President and Corporate Secretary, respectively.

(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. <u>CONTROL AND COMPENSATION INFORMATION</u>

Item 4. Voting Securities and Principal Holders Thereof

(a) Voting Securities

As of **August 7, 2012**, the total number of shares outstanding and entitled to vote on all corporate matters to be acted upon are 927,808,617 common shares.

As of **August 7, 2012**, the Company has a total of 5,000,000 preferred shares outstanding and entitled to vote on the amendments of the Articles of Incorporation and By-Laws of the Corporation and the acquisition of the CSC shares by the Company.

(b) Record Date

The record date for purposes of determining the stockholders entitled to notice of and to vote at the Special Meeting is **August 7, 2012**.

(c) Voting Rights

In the matters to be voted upon in the Special Meeting, stockholders of record as of **August 7, 2012** shall be entitled to one vote per share in person or by proxy. 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 Special 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 Special 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 Special Meeting.

(d) Security Ownership of Certain Record and Beneficial Owners and Management as of **June 30, 2012.**

(1) Security Ownership of Certain Record and Beneficial Owners

As of **June 30, 2012**, 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,	Record Owner is the direct beneficial owner	Filipino	583,035,100	62.84%

	Davao City Majority Shareholder				
Common	PCD Nominee Corporation (Filipino) 37/F Tower 1, The Enterprise Center, 6766 Ayala Ave. cor. Paseo de Roxas, Makati City Shareholder	Record Owner is the indirect beneficial owner	Filipino	194,975,340	21.01%
Common	Udenna Corporation (Formerly Udenna Holdings Corporation) Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City Shareholder	Record Owner is the direct beneficial owner	Filipino	98,129,821	10.58%

As of **June 30, 2012**, there are no beneficial owners under the PCD Nominee Corp. of the Company's common stock in excess of five percent (5%) of the total outstanding shares.

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

Name of Stockholders	Representative
1. Phoenix Petroleum Holdings, Inc.	Domingo T. Uy
2. Udenna Corporation	Cherylyn C. Uy
3. 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 **June 30, 2012** the security ownership of management is as follows:

Title of Class of Securities	Name/Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	% of Ownership
Directors:				
Common	Dennis A. Uy Stella Hizon Reyes Rd., Bo. Pampanga, Lanang,	3,070,594 direct beneficial	Filipino	0.33%

	Davao City	owner		
Common	Dennis A. Uy &/or Cherylyn C. Uy Stella Hizon Reyes Rd., Bo. Pampanga, Lanang, Davao City	884,662 direct beneficial owner	Filipino	0.09%
Common	Domingo T. Uy Insular Village Phase II, Lanang, Davao City	496,861 direct beneficial owner	Filipino	0.05%
Common	Romeo B. De Guzman Hillsborough, Alabang Village, Muntinlupa City	54,600 direct beneficial owner	Filipino	0.01%
Common	Socorro T. Ermac Cabreros 223 V. Mapa St., Davao City	79,444 direct beneficial owner	Filipino	0.01%
Common	Jose Manuel R. Quimson 28 Osmeña St., Xavierville Subd., Loyola Heights, Katipunan, Quezon City	273,001 direct beneficial owner	Filipino	0.02%
Common	J.V. Emmanuel A. De Dios 95 A. Melchor St., Loyola Heights, Quezon City	1 direct beneficial owner	Filipino	0.00%
Common	Ricardo S. Pascua 3 Pebblewood cor. Fairwood, McKinely Hill Village, Taguig City	1 direct beneficial owner	Filipino	0.00%
Common	Monico V. Jacob 7th flr Philippine First Bldg, 6764 Ayala Ave., Makati City	1 direct beneficial owner	Filipino	0.00%
Common	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	255,525 direct beneficial owner	Filipino	0.03%

Common	Chryss Alfonsus V. Damuy Ph2 Blk 07 Lot 07, Wellspring Highlands Subd. Catalunan Pequeno Davao City 8000	54,600 direct beneficial owner	Filipino	0.01%
Common	Alberto D. Alcid Doña Socorro St., Belisario Heights Subd., Lanang, Davao City	79,443 direct beneficial owner	Filipino	0.01%
Common	Edgardo A. Alerta Fortune Executive Homes Lanang, Davao City	245,004 direct beneficial owner	Filipino	0.03%
Common	Rebecca Pilar C. Caterio Margarita Village, Bajada, Davao City	114,195 direct beneficial owner	Filipino	0.01%
Common	Gigi Q. Fuensalida 155 Brillantes St. 5th Avenue, Caloocan City	54,600 direct beneficial owner	Filipino	0.01%
Common	Reynaldo A. Phala Block 5 Lot 20 Pioneers Village	27,300 direct beneficial owner	Filipino	0.00%

The other executive officers of the Company, Raymond T. Zorilla – Asst. Vice President for Human Resources, Corporate Affairs and Branding, Jose Victor L. Cruz – Asst. Vice President for Retail Sales, Luzon, William M. Azarcon – Asst. Vice President, Operations & Logistics, John Henry C. Yap – Supply Manager do not own shares in the Company.

The number of aggregate shares for all directors and executive officers is **Five Million Six Hundred Eighty Nine Thousand Eight Hundred Thirty Three (5,689,833)**.

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

No action is to be taken by the Company with respect to the election of directors.

Item 6. Compensation of Directors and Executive Officers

No action is to be taken by the Company with respect to any compensation of any of the Directors and/or Executive Officers.

Item 7. Independent Public Accountants

No action is to be taken by the Company with respect to the election, approval or ratification of the Company's Independent Public Accountants.

Item 8. Compensation Plans

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

C. <u>ISSUANCE AND EXCHANGE OF SECURITIES</u>

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

<u>Issuance of Php 180,000,000.00 Warrant</u>

Upon the approval of the Stockholders of Article II of the Articles of Incorporation of the Company (The Company's Secondary Purpose, authorizing the issuance of warrants) at the Special Meeting, the other matter to be taken up during the Special Meeting is the issuance of Php180,000,000.00 warrant to BDO Unibank, Inc. ("BDO").

a) For and in consideration of the subscription of BDO to the Php 500,000,000.00 convertible notes issued by the Company under the Convertible Notes Facility Agreement dated July 11, 2012 executed among the Company, BDO and BDO Capital & Investment Corporation, the Company also granted BDO the right to subscribe to warrants to be issued by the Company convertible into common shares of the Company up to the aggregate principal amount of Php 180,000,000.00 (the "**Warrants**").

   The Warrant to be issued by the Company is subject to the approval of the stockholders owning at least two-thirds (2/3) of its outstanding capital stock approving the issuance of the Warrants and the amendment of its Articles of Incorporation to authorize such issuance, and authorizing the execution, delivery and performance of Subscription Agreement between the Company and BDO and the Warrants and all other documents contemplated thereunder; The Warrants shall be evidenced by a Warrant Certificate with the endorsement thereon of the Conditions substantially in the form to be agreed between the Company and BDO.

   BDO shall have, the unconditional right to subscribe to the Warrants on the Warrant Issue Date, which is fixed at any Banking Day no later than February 28, 2013. On the other hand, each warrantholder has the right to exercise their rights, in whole or in part, by subscribing to the Underlying Shares at the

Exercise Price in exchange for the Warrant, within a two-year period commencing on the third anniversary date of the Convertible Notes Issue Date and expiring on the Expiry Date. Expiry Date means five (5) years from the Convertible Notes issue date fixed at July 17, 2012.

The issuance of the warrant should be appreciated together with the Php500,000,000.00 convertible notes issuance to BDO, which was approved by the Company's Board of Directors on July 6, 2012.

Background of Convertible Notes Issuance:

Purpose of the issuance of the Php500,000,000.00 Convertible Notes

The issuance of the Convertible Notes is part of the Company's plan to raise long term capital, to refinance short term debt and finance capital expenditures for the year 2012.

Basic Terms of the Note

1. The Company shall issue to BDO Unibank, Inc. (BDO) a peso-denominated convertible note facility in the aggregate amount of Php500-million in full on a one-time basis within the availability period of thirty (30) days from the execution of the Agreement.

2. The convertible note shall be valid and shall mature three (3) years from issue date.

3. BDO is granted the option to convert all or any portion of the unpaid principal amount of the Notes held by it into the Conversion Shares exercisable at anytime upon written notice by BDO to the Company specifying the time and date of the conversion which shall not be less than thirty (30) banking days from Issuer's receipt of the conversion notice.

4. Optional conversion shall take effect only upon receipt by BDO of the approval of the Bangko Sentral Ng Pilipinas (BSP) if necessary and applicable. Nonetheless, the Conversion Shares shall be issued under an exempt transaction upon application before the Securities and Exchange Commission ("Commission"). As part of the agreement, the Conversion Shares shall be listed upon filing of the proper application at an appropriate time with the Philippine Stock Exchange ("Exchange").

5. BDO shall have the option to elect one (1) nominee to the Issuer's Board of Directors which option may be exercised anytime after signing date and on or before conversion date.

b) Description of Registrant's Securities

(a) ***Terms and conditions of the warrants***

The matter to be sought to be approved during the Special Meeting is the right granted to BDO to subscribe to the warrants to be issued by the Company, convertible into common shares of the Company up to the aggregate principal amount of One Hundred Eighty Million Pesos (Php180,000,000.00), under the terms and conditions as hereunder described.

(b) ***Basic Terms and Conditions in the issuance of the Php 180,000,000.00 warrants***

i. ***The par or issue value, class and number of the corresponding Underlying Shares;***

The underlying shares pertain to the common shares of the Company with a par value of Php1.00 per share. However, the corresponding number of the underlying shares cannot be determined as yet due to the following: (1) the exercise of the warrant and the number is discretionary on the part of BDO and the same is exercisable within a period of two (2) years beginning on the third year anniversary of the Convertible Notes issue date up to the stipulated expiry date; and (2) the exercise price will depend upon the pricing formula stipulated below.

ii. ***The Exercise Price, or the formula for computing the same, or adjustments thereto;***

Exercise price is the amount payable in respect of the Underlying Shares calculated at the price per Underlying Shares equivalent to the Exercise Price Base, plus a premium of fifteen percent (15%)

The basis for the exercise price is similar to the Exercise Price Base which is the 30-day VWAP (Volume Weighted Average Price) of the shares on the Banking Day prior to the Convertible Notes Issue Date.

For the avoidance of doubt, the 30-day VWAP refers to the share price of the Company on the PNX PM Equity HP page of Bloomberg (or such successor page of electronic service) on the signing date of this Agreement and the information as found in the Philippine Stock Exchange. In this case the 30-day VWAP used is the

VWAP from May 24, 2012 to July 5, 2012 which is equivalent to Php 8.2931 per share.

iii. Exercise Period and the Expiry Date of the Warrant;

The exercise period consists of the two-year period commencing on the third anniversary date of the Convertible Notes Issue Date and expiring on the Expiry Date

Expiry date means five (5) years from the Convertible Notes Issue Date.

iv. The procedure for the exercise;

(a) The Warrantholder shall have the unconditional right at any time during the Exercise Period to exercise their Rights, in whole or in part, by subscribing to the Underlying Shares at the Exercise Price in exchange for the Warrant. Any Rights which have not been exercised on Expiry Date will lapse.

(b) In order for the Warrantholder to exercise in whole or in part the Rights under the Warrants, a Warrantholder is required, to complete, sign and deliver a purchase form, surrender and endorse the Warrant Certificate and tender the full Exercise Price, to the Registrar. Payment of the Exercise Price shall be made in cash, or a cashier's or manager's check drawn on any Metro Manila branch of a Bangko Sentral ng Pilipinas (BSP) authorized agent bank, and payable to the order of the Company. If the Warrantholder is a corporation, a secretary's certificate evidencing the resolution authorizing the exercise of the Right under the Warrant shall also be presented to the Registrar of the warrant (Registrar). The exercise of the Right under a Warrant shall be deemed completed upon the surrender and endorsement of the Warrant Certificate as provided above and the payment of the full Exercise Price. If payment is effected by check, or by means other than cash, then payment shall be deemed complete upon actual receipt of the funds by the Company.

(c) All expenses for the transfer and issuance of the Underlying Shares in the names of the Warrantholders who exercise the whole or part of their Warrants such as, but not limited to, stock transaction and stamp taxes and broker's commissions, shall be for the account of the Company.

(d) If applicable, in case of partial exercise, the Company undertakes that there will be issued to the Warrantholders who exercise a portion of their Warrants, a balancing Warrant Certificate in the form in the names of such Warrantholders in respect of any Rights remaining to be exercised by the Warrantholders. The costs, expenses, taxes and fees incurred upon the issuance of the balancing Warrant Certificate shall be for the account of the Warrantholders. The stock certificates for the issued Underlying Shares and the balancing Warrant Certificates, if any, will be sent by mail at the risk of such Warrantholder to the address of such Warrantholder or, in the case of joint holding, to the Warrantholder whose name appears first in the Registry Book not later than ten (10) Banking Days from date of exercise of the Rights. Upon prior arrangement with the Registrar, such certificates may be retained by the Registrar to await collection by the relevant Warrantholders.

v. Summary of the provisions contained in the Warrant Instrument.

Grant of Right to Subscribe. The Corporation hereby grants to the Warrantholders rights to subscribe, during the Exercise Period, to the common shares of the Corporation up to the aggregate amount of One Hundred Eighty Million Pesos (P180,000,000.00) at the Exercise Price.

Registered Warrants. The Warrants are issued in registered form. The Corporation shall recognize only the registered holder of any Warrant as the absolute owner thereof, and accordingly, except upon the order of a court of competent jurisdiction or as required by law, the Corporation shall not be bound to recognize any equitable or other claim to or interest in such Warrant by any other person.

Transfer and Registration. The Warrants may be transferred by completing the endorsement at the back of the Warrant Certificate, and surrendering the same to the Warrant Register. For this purpose, the Corporation shall maintain a Warrant Register which shall contain a record of all transfers. Unless recorded in the Warrant Register, any transfer of the Warrants shall not be binding on the Corporation. The transferors of the Warrants shall pay all applicable taxes on gain and stamp duties, if any, payable as a result of the transfer of the Warrants.

Closing of Warrant Register. The registration of transfers may be suspended and the Warrant Register may be closed for such period as the Board of Directors may direct; provided, that the Warrant Register shall not be closed for a period of more than thirty (30) days in any one (1) year. Any transfer or exercise of the Rights attached to the Warrants made while registration is closed shall, as between the Corporation and the person claiming under the relevant transferred Warrant or, as the case may be, as between the Corporation and the Warrantholder who has so exercised the Rights attached to the Warrants, be considered as made immediately after the reopening of the Warrants Register.

Modifications. Any modification to this Instrument and/or any of the Conditions may be effected only by a supplementary Warrant Instrument, executed by the Corporation and expressed to be supplemental hereto, and only if it shall first have been approved by majority of the Board of Directors of the Corporation and by majority of the Warrantholders in a meeting called and held for such purpose. Any supplemental Warrant Instrument shall be endorsed on this Instrument. Notice of every modification to this Instrument shall promptly be given to the Warrantholders.

Restriction to Protect Subscription Rights. The Warrant Instrument contains the undertakings by and restriction on the Corporation designed to protect the subscription Rights of the Warrantholders.

Exercise of Subscription Rights. Subject to the provisions herein provided and the Warrant Instrument, and to compliance with all laws and regulations applicable thereto, the Warrantholders may exercise their Rights in whole or in part, at any time during the Exercise Period. Any Rights which have not been exercised upon the expiry of the Exercise Period will lapse and the Warrants shall cease to be valid for any purpose. In the exercise of the subscription Rights, the Warrantholder must complete, sign and deliver a purchase form, surrender and endorse the Warrant Certificate, and tender the full Exercise Price, to the Registrar. Payment of the Exercise Price shall be made in cash, or cashier's or manager's check drawn on any Metro Manila branch of a Bangko Sentral ng Pilipinas (BSP) – authorized agent bank, and payable to the order of the Corporation. If the Warrantholder is a corporation, a secretary's certificate evidencing the resolution authorizing the exercise of the subscription Rights under the Warrants shall also be presented to the Registrar. The exercise of the Warrants shall be deemed complete upon the surrender and endorsement of the Warrant Certificate and the full payment of the Exercise Price. If payment is effected by check, or by means other than cash, payment will be deemed complete upon the actual receipt of the funds by the Corporation. All expenses for the transfer and issuance of the Underlying Shares in the name of the Warrantholders who exercise the whole or a part of their subscription Rights under the Warrants such as, but not limited to, stock transaction and stamp taxes and broker's commissions, shall be for the account of the Corporation. In case of partial exercise of the Warrants, the Corporation undertakes that there will be issued to the Warrantholders who exercise a portion of their subscription Rights under the Warrants, a balancing Warrant Certificate in registered form in the name of such Warrantholder covering any Rights remaining to be exercised the Warrantholders. The costs, taxes, expenses and fees incurred upon the issuance of the balancing Warrant Certificate shall be for the account of the Warrantholders. The stock certificates and the balancing Warrant Certificate, if any, shall be sent by mail at the risk of the Warrantholder to the address of such Warrantholder or, in case of joint holding, to the address of the Warrantholder whose name appears first in the Warrant Registry Book no later than ten (10) Banking Days from date of exercise of the subscription Rights. Upon prior agreement with the Registrar, such certificates may be retained by the Registrar to await collection by the Warrantholders.

Adjustment for Dividends, Stock Splits, Reclassifications, etc.. In the event of any subsequent issuance of common shares of the Corporation at a price lower than the Exercise Price Base or there is a change in the number of outstanding stock of the Corporation by reason of a stock split, reverse stock split, stock dividend, recapitalization, combination or reclassification, then Exercise Price Base shall be adjusted to reflect any increase or decrease in the number of issued shares of the Corporation.

Private Placement. No action has been taken or will be taken in any jurisdiction by the Warrantholder or the Issuer that would, or is intended to, permit a public offering of the Warrants, or possession or distribution of any other offering or publicity material relating to the Warrants. This WARRANT IS being ISSUED UNDER AN EXEMPT TRANSACTION PURSUANT TO REPUBLIC ACT NO. 8799 ("THE SECURITIES REGULATION CODE"), AND ACCORDINGLY, is exempt from the registration requirements of the SECURITIES REGULATION CODE. the WARRANTS have not been registered with the SECURITIES AND EXCHANGE COMMISSION. ANY FUTURE OFFER OR SALE OF THE warrants IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE SECURITIES REGULATION CODE UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION. ANY TRANSFER OR ASSIGNMENT OF THIS WARRANT IN VIOLATION OF THE FOREGOING CONDITIONS SHALL BE VOID AND SHALL NOT BE RECORDED IN THE WARRANT REGISTER.

vi. The Exchange Ratio or the number of Underlying Shares which may be purchased under each Warrant.

The Exchange Ratio or the number of Underlying Shares which may be purchased under each warrant cannot be determined as yet due to the following: (1) the exercise of the warrant and the number is discretionary on the part of BDO, which is exercisable within a period of 2 years beginning on the third year anniversary of the Convertible Notes issue date up to the stipulated expiry date; and (2) the exercise price will depend upon the pricing formula stipulated below.

c) Brief description in which the securities are to be issued

The issuance of the warrant should be appreciated together with the Php500,000,000.00 convertible notes issuance to BDO Unibank, Inc. which was approved by the Company's Board of Directors on July 6, 2012.

As previously stated, for and in consideration of the subscription of BDO to the Php 500,000,000.00 convertible notes issued by the Company under the Convertible Notes Facility Agreement dated July 11, 2012 executed among the Company, BDO and BDO Capital & Investment Corporation, the Company also granted BDO the right to subscribe to warrants to be issued by the Company convertible into common shares of the Company up to the aggregate principal amount of Php 180,000,000.00. Such right given to BDO can be exercised within a two-year period commencing on the third anniversary date of the Convertible Notes Issue Date and expiring on the Expiry Date. Expiry Date means five (5) years from the Convertible Notes issue date.

d) Reason for the issuance of the warrants.

The issuance of the warrant should be taken together with the issuance of the Php 500,000,000.00 Convertible Notes to BDO. The issuance of the Convertible Notes is part of the Company's plan to raise long term capital, to refinance short term debt and finance capital expenditures for the year 2012.

e) Financial Statements of the Company

The consolidated financial statement of the Company as of June 30, 2012 attached herein as **Annex A.**

Voting rights and other rights of shareholders.

Each holder of a common share shall have the right to one vote, and shall be entitled to notice of any shareholders' meeting in accordance with the Company By-Laws, and shall be entitled to vote upon such matters and in such manner as may be provided by law.

As for the holder of the preferred share, each shall have the right to one vote, and shall be entitled to notice of any shareholders' meeting in accordance with the Company By-Laws, and shall be entitled to vote on the amendments of the Articles of Incorporation and By-Laws and the proposed acquisition in such manner as may be provided by law.

Each stockholder of the Company does not have pre-emptive rights to subscribe to any issue or disposition of shares by the Company of any class.

Each holder of a common/preferred share does not have any other material right provided in the Company's Articles of Incorporation or By-Laws.

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

ACQUISITON OF 100 % SHARES OF CHELSEA SHIPPING CORP. ("CSC") VIA SHARE FOR SHARE SWAP

In relation to the transaction as above –described, the Company plans to issue new common shares to the owners of CSC as discussed in details in Item 12.

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 financial statement of the Company as of March 31, 2012 attached herein as **Annex A.**

The Company undertakes to submit a copy of the Consolidated Financial Statement as of June 30, 2012. Attached herein as **Annex B** is a copy of the Company's Undertaking.

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

ACQUISITON OF 100 % SHARES OF CHELSEA SHIPPING CORP. ("CSC") VIA SHARE FOR SHARE SWAP

Approval by the Board

At the meeting of the Board of Directors of the Company held on July 6, 2012, the Board of Directors approved the acquisition of 100 % shares of stock of CSC via share for share swap.

The agreed purchase price for the whole transaction is Php1.578 billion or a price of Php 249.92 per share to acquire 100% capital shares of Chelsea. 90% of the quoted purchase price will be paid via shares of the Company's authorized but unissued common shares and the balance of 10% in cash.

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

Such new common shares of the Company are to be valued at Eight and 2931/1000 Pesos (Php8.2931) per share, computed on the basis of the 30-day Volume Weight Average Price (VWAP) from 24 May 2012 to 05 July 2012.

Description of the Company's Securities to be issued in exchange for the shares in CSC:

i. The shares to be issued to the current shareholders of CSC are the common shares of the Company. Each common share entitles the holder to one vote. At each meeting of the stockholders, each stockholder entitled to vote on a particular question or stock standing in his name in the books of the Company as of record date.

ii. Each holder of common shares shall be entitled to such dividends as may be declared by the Board of Directors on the basis of outstanding stock held by them. The Board of Directors is authorized to declare dividends which shall be declared and paid out of the Company's unrestricted retained earnings. A cash dividend does not require any further approval from the stockholders. A stock dividend shall require the further approval of the stockholders representing at least two-thirds (2/3) of the Company's outstanding capital stock.

iii. Under the Company's Amended Articles of the Company, holders of common stock have waived their pre-emptive rights.

iv. There is no provision in the Company's Amended Articles of Incorporation or By-Laws that would delay defer or prevent a change in control of the Company.

<u>Brief description of Chelsea Shipping Corp.</u>

CSC is a shipping company that provides safe and reliable point-to-point transport of oil, fuel and other liquid cargo all around the Philippines with principal address at Stella Hizon Reyes Road, Barrio Pampanga, Lanang, Davao City and business address at Udenna BPO Park, J.P. Laurel Avenue, Davao City, with contact number (082) 235-8888.

CSC is engaged in maritime trade in the conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, including but not limited to general cargo handling, loading, transporting, discharging, and storing, over oceans, seas, lakes, rivers, canals, bays, harbors, and other waterways in the Philippines. It is 100% owned by Udenna Management & Resources Corp. (UMRC), an existing stockholder of the Company.

CSC was incorporated in 2006 and currently has 10 vessels in its fleet, two of which serve the regional trade route (Taiwan to Philippines. Chelsea owns the largest Philippine-registered oil tanker "M/T Chelsea Thelma" with 9366 GRT. With a total fleet size of 19,561 GRT, Chelsea is among the top 5 major petroleum tanker owners in the country. It serves Phoenix Petroleum, Cebu Pacific Air, PTT Philippines, National Power Corporation, Total Bulk Corporation, and Batangas Bay Carriers, Inc. and Marine Fuels Philippines, Inc. of the Magsaysay Group of Companies. Chelsea also serves the bunkering requirements of U.S. Navy vessels calling at Subic Bay, and transports coconut oil for companies in Cebu. CSC is fully compliant with the International Safety Management (ISM) System having upgraded from the National Safety Management (NSM) System.

The following are the subsidiaries of Chelsea:

i) Bunkers Manila Incorporated
ii) Chelsea Ship Management & Marine Services Corp.
iii) Michael, Inc.
iv) PNX- Chelsea Shipping Corp.

Brief summary of the terms of the transaction agreement.

The transaction pertains to the acquisition of 100% outstanding capital stock in CSC which is owned by the following stockholders:

Name of Stockholder (referred as Sellers)	Nationality	No. of Shares Subscribed	Amount Subscribed (Php)	Amount Paid Up (Php)
Udenna Management & Resources Corp. (UMRC)	Filipino	6,312,495	631,249,500.00	631,249,500.00
Dennis A. Uy	Filipino	1	100.00	100.00
Cherylyn C. Uy	Filipino	1	100.00	100.00
Jose Manuel R. Quimson	Filipino	1	100.00	100.00
Ignacia S. Braga IV	Filipino	1	100.00	100.00
Socorro Ermac Cabreros	Filipino	1	100.00	100.00
TOTAL		6,312,500	631,250,000	631,250,000

(Udenna Management & Resources Corp. Dennis Uy, Cherylyn C. Uy, Jose Manuel R. Quimson, Socorro Ermac Cabreros and Ignacia Braga IV are hereinafter collectively referred to as the "Sellers")
The purchase price for the acquisition of 100 per cent shares in CSC by the Company shall be in the amount of ONE BILLION FIVE HUNDRED SEVENTY EIGHT MILLION PESOS (PHP1,578,000,000.00), payable as follows: ninety percent (90 %) or the amount of One Billion Four Hundred Twenty Million Two Hundred Thousand Pesos (Php1,420,200,000.00) will be paid via the issuance of new common shares from the unissued authorized capital stock of the Company via share-for-share swap and the balance or ten percent (10 %) or the amount of One Hundred Fifty Seven Million Eight Hundred Thousand Pesos (Php157,800,000.00) shall be paid in cash to cover tax payments, payable upon execution of the Share Swap Agreement.

To cover the ninety per cent (90%) of the Purchase Price, the Company shall issue in favor of the SELLERS via share-for-share swap, thirty (30) new common shares of the Company for every one (1) CHELSEA share.
Accordingly, One Hundred Seventy One Million Two Hundred Fifty Thousand Seven Hundred Ninety Nine (171,250,799) new common shares from the unissued authorized capital stock of the Company shall be issued in favor of the SELLERS (the "Consideration Shares") in proportion to the SELLERS's respective shareholdings in CSC, as follows:

Name of the SELLER	No. of Shares to be Issued by PURCHASER
Udenna Management & Resources Corporation	171,250,649
Dennis A. Uy	30
Cherylyn C. Uy	30
Jose Manuel R. Quimson	30
Socorro Ermac-Cabreros	30

Ignacia S. Braga IV	30
TOTAL	171,250,799

Such new common shares of the Company are to be valued at Eight and 2931/1000 Pesos (Php8.2931) per share, computed on the basis of the 30-day Volume Weight Average Price (VWAP) from 24 May 2012 to 05 July 2012.

After the allotment of the Consideration Shares to the SELLERS, they shall collectively represent around twenty one percent (21%) of the issued shares in the capital of the Company.

The SELLERS shall be entitled to appoint two (2) nominees to the Company's Board of Directors upon the approval of the amendment of the PURCHASER'S Articles of Incorporation and By-laws.

Aside from the approval of the Board of Directors of the Company, the acquisition by the Company of 100% absolute and unencumbered ownership of the SELLERS in CSC is subject to the approval of the stockholders of the Company in the Special Meeting. In addition to such stockholder approval, considering that the transaction is a related party- transaction, the approval of a majority of outstanding shares held by the minority stockholders present or represented at the same meeting must likewise be secured in order to waive the requirement of the Company conducting a rights offering.

Within ten (10) 10 days from securing all the required approvals from their respective Board of Directors and stockholders, the Company and the owners of CSC shall now cause the execution of a Share Swap Agreement

The rights of the security holders will not be affected by the transaction. However, the Company shall be securing from the majority of the minority shareholders of the Company their approval and consent to waive the requirement of a rights or public offering as required by the Philippine Stock Exchange. If such approval is not secured, the Company shall be required to perform a rights offering to all existing stockholders and directors.

Reason for engaging in the transaction.

As a petroleum company, ownership by the Company of a marine petroleum transport company is strategic. The acquisition of CSC will ensure the control of product supply by a fleet of vessels ready to transport its products to minimize and eliminate the potential risk of supply disruptions due to scarcity of tanker vessels. Scheduling of importation of products and distribution in the Philippines will be easily facilitated. The acquisition will likewise protect itself from freight rate fluctuations with the volatile bunker market. Any reduction in fuel market price will improve the logistics cost. It should be noted that the Company imports about 90% of its petroleum products from nearby region such as but not limited to Taiwan, China and Singapore.

Moreover, the acquisition of CSC will allow the Company to consolidate the balance sheet, revenues and income of the former. The additional issuance of common shares by the Company (as partial payment of the purchase price of CSC) will result in an increase in market capitalization of the Company. Additional savings are also expected from improvements in operational efficiencies from synergies and shared services.

Accounting treatment of the transaction.

After the execution, completion and closing of the acquisition of CSC, it shall remain to be a separate corporation, which will be a 100%-owned subsidiary of the Company.

Dividends in arrears/defaults in principal or interest

There are no dividends in arrears/defaults in the principal or interest in respect of any securities of the Company or of such other person so as to effect the transaction.

Regulatory requirements that must be complied

The acquisition by the Company of the 100% absolute and unencumbered ownership of the Selling Stockholders in CSC does not require any prior regulatory approval from any government agency. But the acquisition shall be effective upon the ratification of the said transaction by the stockholders of the Company.

Fiscal Performance of Chelsea Shipping Corp. for the past two (2) fiscal years:

net sales or operating revenues		
2010	PhP 618,409,268.00	
2011	PhP 544,591,962.00	
income (loss) from continuing operations		
2010	PhP 12,894,818.00	
2011	PhP 53,992,074.00	
long term obligations and redeemable preferred stock		
2010		none
2011		none
book value per share		
2010	PhP	1.10
2011	PhP	1.89
cash dividends declared per share		
2010		none
2011		none
income (loss) per share from continuing operations		
2010	PhP	0.03
2011	PhP	0.13

A more detailed discussion of the financial performance of Chelsea Shipping Corp. is presented and discussed in Annex “E” of this Information Statement.

Fairness Opinion and Valuation Report

From October 2011 to November 2011, the Company accepted bids for the selection of a firm who will make a study and evaluate the fairness of the valuation to be used in the acquisition of CSC. Three companies submitted their bidsnamely: ATR Capital Partners, Chinatrust Bank Corporation and PentaCapital Investment Corp. The Company decided to engage the services of PentaCapital Investment Corporation (PentaCapital). PentaCapital was selected among other firms because of its long years experience and expertise in the business and because it offered the most reasonable and acceptable rates. PentaCapital as the third-party valuation and fairness opinion services provider has no financial interest in the Company. The Company only paid Php 1,250,000.00 to PentaCapital for the latter to provide a Fairness Opinion Certification and to be the Company’s Financial Adviser with regard the potential acquisition of CSC.

PentaCaptial is a leading independent investment house in the Philippines known for its unique expertise in project development and financing.

PentaCapital is managed by a team of experienced managers with a combined experience of more than 150 years. Senior officer of PentaCapital have extensive foreign and local experience in the field of merchant, investment and commercial banking, corporate finance, underwriting, project financing, mergers and acquisition, securitization, securities dealership, foreign exchange, money and capital markets, and investment management PentaCapital shall continue to cater to clients in real estate development, leisure and tourism, mineral resources development, transportation, water resources and infrastructure.

Aside from the issuance of the Company’s Preferred Stocks in September 2010, where PentaCapital acted as issue manager, the Company does not have any material relationship with PentaCapital during the past two (2) years.

The Company and the Selling Stockholders of CSC have determined, on their own, the amount of consideration for the acquisition transaction.

PentaCapital used the adjusted book value method and tested the viability of the planned acquisition transaction using the Future Earnings Method (or DCF, Discounted Cashflow Method) for the valuation of the Company and CSC, as the basis of their fairness opinion report.

The valuation and fairness opinion report of PentaCapital shall be presented during the stockholders’ meeting ratifying the proposed acquisition transaction, if necessary.

During the stockholders' meeting, PentaCapital shall be available to expound on their valuation and fairness opinion report and to answer questions from any of the stockholders of the Company, if necessary.

<u>Existing Related Party Contract, Arrangements and Transactions with Chelsea Shipping Corp.</u>

RELATED PARTY TRANSACTIONS

CSC's related parties include its ultimate parent, parent, subsidiaries, companies under common ownership and CSC's key management personnel. The following are the transactions of CSC with its related parties in the ordinary course of business:

a.) Transactions with Subsidiaries

CSC engaged the services of BMI and MI for its chartering and bunkering requirements. The service agreements are made on the same terms as those transactions with third parties. Bunkering expense incurred related to the above service agreements amounted to Php 53.2 million and Php 92.8 million in 2011 and 2010, respectively, and included as part of Bunkering under Costs of Sales and Services account in the statements of comprehensive income.

On the other hand, Charter Hire Fees amounted to Php 22.4 million and Php 57.3 million in 2011 and 2010, respectively, and included as part of Charter Hire Fees under Costs of Sales and Services account in the statements of comprehensive income. As of December 31, 2011, 2010 and 2009, the related outstanding payables amounted to Php 7.6 million, Php 40.8 million and Php 7.8 million, respectively, and are included as part of Trade under Trade and Other Payables account in the statements financial position.

b.) Transactions with the Company

CSC which is also a subsidiary of UMRC, renders hauling services for and purchases fuel and lubricants from the Company. The transactions are made on the same terms as those transactions with third parties.

Charter fees recognized in 2011 and 2010 related to transactions with the Company totaled to Php 263.5 million and Php 238.2 million, respectively, and presented under Revenues account in the statements of comprehensive income. CSC also recognized standby charges amounting to Php 16.1 million each in 2011 and 2010 from PPPI. As of December 31, 2011, 2010 and 2009, CSC has outstanding receivables from the Company amounting to Php 15.2 million, Php 6.2 million and Php 32.4 million, respectively, and are presented as part of trade under Trade and Other Receivables account in the statements of financial position.

Fuel purchases in 2011 and 2010 from the Company amounted to Php 98.3 million and Php 80.1 million, respectively. Fuel consumed were included as part of Bunkering under Costs of Sales and Services account the statements of comprehensive income while the remaining fuel inventory were included as part of Other Current Assets accounts in the statements of financial position. The outstanding liability for the purchase of fuel and lubricants amounted to Php 42.0 million, Php 84.7 million and Php 48.5 million as of December 31, 2011, 2010 and 2009, respectively, and is presented as part of Trade under Trade and Other Payables account in the statements of financial position.

During 2011, CSC received advances from the Company totaling to Php 114.8 million and were originally intended as payments for services to be provided by CSC to the Company. The service, however, was subsequently cancelled and the total amount received was recorded by CSC as part of Advances from Customers account in the 2011 statement of financial position.

c.) Transactions with Related Parties Under Common Ownership

CSC renders hauling services to Subic Petroleum Trading and Transport Phils., Inc. (SPTT). Revenue earned amounting Php 4.1 million is presented under Charter Fees in the 2011 statement of comprehensive income. Related accounts receivables presented as part Trade and Other Receivables account in the 2011 statement of financial position amounted to Php 2.6 million. The transactions are made on the same terms as those transactions with third parties. No similar transaction occurred in 2010.

In 2011, CSC entered into a one year contract of lease for certain vehicle with Valueleases, Inc. (VLI). Related rent expense, which is recognized as part of other operating expenses, amounted to Php 0.4 million while the outstanding accounts payable, which is included as part of trade and other payables, amounted to Php 0.04 million.

High and Low Prices as of public announcement

Only the Company's Common Stocks are traded in the Philippine Stock Exchange and as of July 6, 2012, the date of the public announcement of the proposed transaction, the High Sale Price is Php 8.50 per share of common share, while the Low Sale Price is Php 8.39 per share of common share. The Company's Preferred shares are not listed and traded in the Philippine Stock Exchange.

CSC's shares are not listed and traded in the Philippine Stock Exchange.

The Financial Statements of CSC.

The consolidated financial statement of the Company as of December 31, 2011 attached herein as **Annex C.**

Description of CSC

(1) BUSINESS DEVELOPMENT

(a) Form and Date of Organization

CSC was incorporated and registered with the Securities & Exchange Commission on July 17, 2006 under SEC Registration No. 200628661 with an initial authorized capital stock of Php 10,000,000.00 divided into 100,000 shares with a par value of Php 100.00 per share. Currently, the authorized capital stock of CSC is now Php1,000,000,000.00 divided into 10,000,000 common shares with par value of Php 100.00 per share. Its principal office address is at Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City with office in Metro Manila located at office at 26th Floor, Fort Legend Towers, 3rd Avenue corner 31st Street, Bonifacio Global City, Taguig City 1634.

CSC is a wholly-owned subsidiary of Udenna Management & Resources Corp. (UMRC). In turn, CSC holds 100% direct ownership interest in Bunkers Manila, Inc. (BMI) and Michael, Inc. (MI), PNX- Chelsea Shipping Corp (PNX-Chelsea) and Chelsea Ship Management and Marine Services Corp. (CSMMSC), all of which are incorporated in the Philippines.

(i) BMI was incorporated on 7 March 2000, and serves the growing demand of marine fuel (bunker) of foreign vessels calling on Philippine ports. Aside from international bunkering, BMI is also engaged in the business of hauling marine fuel and petroleum products for oil majors.

(ii) MI was incorporated on 16 December 1957, and is engaged in the business of acquiring and operating vessels for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines. MI is also engaged in the business of trading of fuel oil.

(iii) Both BMI and MI became wholly owned subsidiaries of CSC when the former stockholders of these Companies entered into a Share Purchase Agreement (SPA) dated January 31, 2008 and August 31, 2008, respectively, for the sale and purchase of the said Companies' total outstanding capital stock. The registered office of BMI, which is also its principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

. On the other hand, the registered office of MI, which is also its principal place of business, is located at 12 Dagohoy Street, San Antonio Village, Banilad, Cebu City.

(iv) PNX–Chelsea was incorporated on 2 February 2011 and is engaged in the business of ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description. PNX- Chelsea's principal office address is Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

(v) CSMMSC was incorporated on 30 March 2012 and is engaged in ship management, and acts as agent, broker, ship chandler, or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels belonging to shipping corporations or individuals. CSMMSC is also authorized to act as principal and hire the services of a local manning agent for the overseas employment for seamen, and to equip any and all kinds of ships, barges and vessels of every class and description. CSMMSC's principal office address is at the 26th Floor, Fort Legend Tower, 3rd Ave corner 31st Street, Bonifacio Global City, Taguig City.

On May 28, 2012, the SEC approved the CSC's application for an increase in its authorized capital stock to Php 1,000,000,000.00 divided into 10,000,000 common shares with a par value of Php 100.00 per share, with a subscribed and paid up capital of P631,250,000.00.

(b) There is no bankruptcy, receivership or any similar proceeding pending or threatened with respect to CSC or any of its subsidiaries.

(c) Any Material Reclassification, Merger, Consolidation, or Purchase or Sale of a significant amount of assets (not in the ordinary course of business)

As previously stated, both BMI and MI became wholly owned subsidiaries of CSC when the former stockholders of these Companies entered into a Share Purchase Agreement (SPA) for the sale and purchase of the said Companies' total outstanding capital stock.

On August 31, 2008, CSC entered into an SPA with MI for the acquisition of 74,307 shares representing all of the outstanding shares of MI for a total purchase price of Php 75,000,000.00.

On January 31, 2008, CSC executed an SPA for the purchase of 200,000 shares of BMI with a par value of P100.00 per share for a total acquisition price of Php 32,000,000.00

(2) BUSINESS OF ISSUER
(a) DESCRIPTION OF THE PRODUCT OF THE REGISTRANT

(1) Principal products or services and their market

CSC is engaged in maritime trade in the conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, including but not limited to general cargo handling, loading, transporting, dischargingover oceans, seas, lakes, rivers, canals, bays, harbors, and other waterways in the Philippines. Currently, it has 10 vessels in its fleet, two of which serve the regional trade route (Taiwan/Singapore/Thailand to Philippines). Chelsea owns the largest Philippine-registered oil tanker "M/T Chelsea Thelma" with 9366 GRT.

CSC commenced commercial operations in January 2007, operating out of the ports of La Union, Pangasinan, Subic Bay, Bataan, Manila, Batangas, Cebu, and Davao. Presently it has added the ports of Rapu-Rapu, Bicol, San Jose, Mindoro, Mogpog, Marinduque; Lubang Island; Semirara; Dumaguit, Aklan, Bacolod, Zamboanga, General Santos City and Cagayan de Oro to its areas of operation. In July 2009, with the acquisition of M/T Chelsea Cherylyn, CSC expanded to regional operations with voyages to China, Taiwan and Singapore. CSC's thrust to engage in regional operations, was further bolstered by the acquisition of the 14,000 DWT M/T Chelsea Thelma in February 2012, which to date, is the largest Philippine-registered oil tanker.

Currently, CSC operates a fleet of ten (10) vessels for the maritime transport of petroleum products and other bulk liquid cargo, to wit:

Vessel	Deadweight (in MT)	Capacity (in MT)
Chelsea Cherylyn	6,026	5,208
Chelsea Resolute	2,840	2,376
Chelsea Denise	1,867.48	1,443
Ernesto Uno	1,600	1,358
Patricia	606.27	509
Chelsea Enterprise	848.14	602
Jasaan	700	509
Chelsea Intrepid	728.26	509
Vela	1,151.81	1,067
Chelsea Thelma	14,000	14,006

TOTAL	30,367.96	27,587

(2) Percentage of sales or revenues from foreign sales

CSC gets all of its sales and revenues from domestic sales.

(3) Distribution Methods of the Products or Services

As previously stated, CSC operates of the ports of La Union, Pangasinan, Subic Bay, Bataan, Manila, Batangas, Cebu, and Davao. Presently it has added the ports of Rapu-Rapu, Bicol, San Jose, Mindoro, Mogpog, Marinduque; Lubang Island; Semirara; Dumaguit, Aklan, Bacolod, Zamboanga, General Santos City; and Cagayan de Oro to its areas of operation. In July 2009, with the acquisition of M/T Chelsea Cherylyn, CSC expanded to regional operations with voyages to China, Taiwan and Singapore. CSC's thrust to engage in regional operations, was further bolstered by the acquisition of the 14,000 DWT M/T Chelsea Thelma in February 2012, which to date, is the largest Philippine-registered oil tanker.

Currently, it has 10 vessels in its fleet, two of which serve the regional trade route (Taiwan to Philippines).

Charter hires are in the form of Bareboat charter, Time charter and Voyage charter.

CSC's major clients are Phoenix Petroleum Philippines Inc., Cebu Pacific Air, Marine Fuels Philippines Inc., PTT Philippines, Total Bulk Corporation for Philippines Airlines and Air Philippines, Subic Petroleum Trading and Transport Corp., Ludo Luym and Islas Tankers and Seatransport Corp.

(4) Status of Publicly Announced New Product or Service

In February 2012, CSC accepted delivery from China of its new 9,366 GRT oil / chemical tanker, M/T Chelsea Thelma. This latest vessel acquisition of CSC is the largest Philippine-registered oil tanker in the country today with 9366 GRT. CSC's thrust to engage in regional operations, was thus further bolstered by the acquisition of M/T Chelsea Thelma.

(5) Competitive Business Condition and Registrant's Competitive Position

The transport of petroleum products is one of the most essential businesses that propel the growth of the Philippine economy. There are approximately 7,100 islands in the country, of which more than half are inhabited. The populace needs fuel for transportation, electrical power, farming and other activities. It is the oil tankers and trucks which make sure that fuel is transported to places in our country where and when it is needed.

The latest records of the Maritime Industry Authority (MARINA) show that there are about 188 oil tanker vessels of different sizes in the country. Majority of these vessels are 500 GRT or below, and the rest are from about 501 GRT to 5052 GRT. The aggregate tonnage of these tankers is about 183,000 GRT.

There are seven (7) major tankers owners in the Philippines each owning four (4) or more vessels. These tanker owners account for a total of about 65 vessels and an aggregate tonnage of about 105,764 GRT.

There has been a significant growth in the oil tankering business in the country in the past few years. A few years back, vessel acquisition in the country was confined to local purchases and exchanges by the local vessel owners. This scenario has markedly changed. Now ship owners acquire good second-hand tankers from abroad, particularly from South Korea and Japan. For new vessel constructions, tanker owners have gone to the People's Republic of China.

CSC is considered a new entrant to the petroleum shipping industry. CSC started acquiring second-hand tankers from local owners in the mid 2006. In 2007, CSC acquired a brand new double hull/double bottom oil tanker from China with 4,126 GRT, M/T Chelsea Cherylyn, which was delivered in mid 2009. In February 2012, Chelsea Shipping accepted delivery from China of its new 9,366 GRT oil /chemical tanker, M/T Chelsea Thelma. This latest vessel acquisition of CSC is the largest Philippine-registered oil tanker in the country today.

With a total fleet size of 19,561 GRT, CSC is among the top 5 major petroleum tanker owners in the country.

There has also been a significant improvement in the quality of the tanker vessels plying Philippine waters. From old, single hull vessels, there has been a shift to double-hulled double bottomed vessels designed for environmental protection / pollution prevention.

In its Memorandum Circular No. 2007-01 issued in September 2006, the MARINA mandated that -

"Oil tankers including tankers below 600 DWT shall be double hulled by April 2008. All provisions of MARPOL 73/78 under Regs. 19.3, 19.4,19.7 and 21.4.2 shall apply."

All tankers carrying persistent oil or the so-called black fuel had to comply with the above Memorandum Circular by the end of 2010.

In its Memorandum Circular No 2010-1 issued in December 14, 2010, mandating all owners and operators of oil tankers and tanker barges with 600 DWT and above must be double hulled.

For tankers carrying non-persistent oil or white fuel, such tankers have to be double-hulled by January of 2012.

The Ship Inspection Report Program (SIRE) established by Oil Companies Maritime Forum (OCIMF) is a standard inspection required of tankers. If a tanker is fully compliant with this requirement, the vessel is accepted for use by the OCIMF members who include the major oil companies. This requirement is even applied to small self-propelled tanker barges.

With the combination of vessel double-hulling and the stringent safety and pollution prevention standard imposed on tankers, the costs for which are undeniably a significant investment from owners, the Philippines is now moving towards the level of other progressive countries engaged in the business of tankering.

(6) Sources and Availability of Raw Materials and Names of Principal Supplier

Most of the spare parts and machinery replacements are available locally. Around 2% of engine spares are imported from China and Japan. These are being supplied directly from the manufacturer or thru of ship agent in China.

Local fuel and lubes requirements are supplied by its affiliate, Phoenix Petroleum Philippines, Inc. Regional vessels get their fuel supply from the country where they pick up the cargo of the customers (Singapore, Thailand or Taiwan.)

Dry docking requirements are done thru local shipyards to include Keppel, Batangas, Seafront Shipyard in Bataan, Josefa Shipyard in Navotas and Nagasaka Shipyard in Cebu.

(7) Dependence on one or a few major customers and identification as such

CSC's major clients are Phoenix Petroleum Philippines Inc., Cebu Pacific Air, Marine Fuels Philippines Inc., PTT Philippines, Total Bulk Corporation for Philippines Airlines and Air Philippines, Subic Petroleum Trading and Transport Corp., Ludo Luym and Islas Tankers and Seatransport Corp.

However, CSC is not dependent on a small number of customers, and the loss of any one of these customers would not have a material adverse effect on its operating and financial condition.

(8) Transactions with or dependence on related parties

CSC has a number of transactions with its related parties as previously mentioned and discussed above.

As mentioned above, CSC is not dependent on a small number of customers and although the Company is one of its major customers, it is not dependent on the Company. Even if it loses the Company as one of its customers, it would not have a material adverse effect on CSC's operating and financial condition.

(9) Patents, Trademarks, Licenses, Franchises, Concessions

CSC has yet to register its logo. But CSC recognizes that branding is a cornerstone of the CSC s marketing campaign.

(10) Government Approval of Principal Products or Services

CSC is registered with the Securities and Exchange Commission and its vessels are registered with the Maritime Industry Authority (MARINA) as well the vessels' Certificate of Public Convenience.

(11) Effect of Existing or Probable Governmental Regulations on the Business

Aside from extra safety and regulatory provisions that CSC complies with for being a shipping company and the other permits and certificates secured by CSC with (MARINA) and other government agencies, there are no existing Governmental Regulations which have any material effect on the business of CSC. Also, in the foreseeable future, there are no other probable new governmental regulations which may affect the business of CSC.

(12) Estimate of Amount Spent for Research and Development

Currently, CSC does not incur any Research and Development costs.

(13) Costs and Effects of Compliance with Environmental Laws

All vessels under the Chelsea Fleet have International Oil Pollution Prevention (IOPP) Certificate. We likewise have Certificate of Insurance or other Financial Security in Respect of Civil Liability for Oil Pollution Damage. Each vessel is Safety Oil Pollution and Environmental Protection (SOPEP) Compliant.

(14) CSC's Employees

EMPLOYEES

The Company had a total of 383 employees as of December 31, 2011. The employees are classified as follows:

Rank and File Employees	51
Supervisory Employees	37
Managers	4
Executives	6
Total	98

The other employees not included in the classification above represent the sea-based employees.

The Company has no collective bargaining agreements with employees and there are no organized labor organizations in the Company. The Company believes that it has maintained amicable relationships with the rank and file employees and does not anticipate any labor-management issues to arise in the near term.

The Company complies with the minimum compensation and benefits standards pursuant to Philippine law. The Company intends to set up a stock-based incentive plan and a retirement plan for its employees in the near term.

The Company is not dependent on the services of any particular employee. It does not have any special arrangement to ensure that any employee will remain with the Company and will not compete upon termination.

(15) Major risk involved in each of the business of CSC and subsidiaries, and the steps taken to manage such risks

One of the major risks involved for CSC to it being acquired by the Company is that CSC may encounter a reduction of revenue from other oil companies. If the acquisition of CSC by the Company pushes through, it can no longer be denied that CSC will be a part of the

Company and will be inevitably linked to the Company, as a result, this may reduce business from oil companies who could hesitate on doing business with its direct competitors.

However the CSC can mitigate this risk by using conduits in order to maintain its current business relations with other oil companies who hesitate to do business directly with competitors.

Item 13. Acquisition or Disposition of Property

No actions are to be taken with respect to the acquisition or disposition of the Company's Property.

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. <u>OTHER MATTERS</u>

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

There are no actions to be taken with any action with respect to reports and other proposed actions.

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 Articles of Incorporation, By-laws or Other Documents

Amendment of the Articles of Incorporation

At the Special Stockholder's Meeting of the Corporation, the following proposed amendment to the Articles of Incorporation of the Corporation shall be submitted to the stockholders for approval:

A. Article II thereof, amending the Corporation's secondary purpose in order to allow it to issue warrants and derivatives, and to broaden the Corporation's secondary purpose. The proposed amended portion of the Articles of Incorporation now reads:

'*SECONDARY PURPOSES*

1. x x x x x x
2. To purchase, acquire, own, lease, sell and convey real properties, such as lands, buildings, factories and warehouses, machinery, equipment and other personal

properties as may be necessary or beneficial to the conduct of corporate activities and other related activities advanced by the Corporation *__and to pay in cash, shares of its capital stock, debentures and other evidences of indebtedness or other securities, as may be deemed expedient, for any business or property acquired by the corporation__;*

3. *To borrow or raise money necessary to meet the financial requirements of its activities by the issuance of bonds, promissory notes and other evidences of indebtedness,* *__including issuance of any types of derivatives and notes and other securities__* *and to secure repayment thereof by mortgage, pledge, deed of trust* *__or lien upon the properties of the corporation or to issue pursuant to law shares of its capital stock, debentures and other evidence of indebtedness in payment for properties acquired by the corporation or for money borrowed in the prosecution of its lawful business__;*
4. *To invest and deal with the money and properties of the corporation in such a manner as may from time to time be considered wise or expedient for the advancement of its interest* *__and to sell, dispose of, or transfer the business, properties and goodwill of the corporation or any part thereof for such consideration and under such terms as it shall see fit to accept__;*
5. *To enter into any lawful arrangement for sharing of profits, union of interest, utilization or far mount agreement, reciprocal concession, or cooperation with any corporation, association, partnership, syndicate, entity, person or government, municipal or public authority, domestic or foreign, in the carrying on of any transaction deemed necessary, convenient, or incidental in the carrying out any of the purpose of the corporation.*

6. *__To acquire or obtain from any government or authority, national, provincial, municipal or otherwise, or any corporation, company, partnership or person, such charter, contracts, franchise, privileges, exemption, licenses and concessions as may be conducive to any of the objects of the corporation__;*

7. *__To establish and operate one or more branch offices or agencies and to carry on any or all of its operations and business without any restrictions as to place or amount including the right to hold, purchase or otherwise acquire, lease, mortgage, pledge, and convey or otherwise deal in and with real and personal property anywhere within the Philippines__; __and__*

Generally, to do every and other act and things necessary, suitable or proper for the accomplishment of the business of the corporation as may now or hereafter be authorized by law, and to perform any and all acts connected with the business above-defined or arising therefrom or incidental thereto.""

The Company negotiated with the BDO Universal Bank on the issuance of Php500-Million Convertible Debt with Php180-million warrants. However, the Company's Articles of Incorporation particularly its Secondary Purpose does not authorize the issuance of derivatives such as warrants.

The amendment of the secondary purpose will remedy this situation and authorize the Company to issue the necessary warrants for the current negotiation or any derivatives of any nature in the future if necessary and to broaden the scope of the secondary purpose of the Company.

It is further assured that the amendment of the Company's Secondary purpose to authorize the Company to issue derivative and further broadening the scope is fairly consistent with good corporate governance practice.

B. Article VI thereof, amending the number of the Company's Board of Directors to 11. The proposed amended portion of the Articles of Incorporation now reads:

"SIXTH: That the number of Directors of said corporation shall be eleven (11)."

With the acquisition of CSC and the additional subscription of shares of Udenna Management & Resources Corp. (UMRC) of 171,250,799 thus making a total of 196,093,799 or about 21.64% of the total outstanding capital stock of the corporation, an increase in the composition of the board seat is suitable to accommodate additional and credible directors consistent with good corporate governance practice.

Amendment of the By-Laws

At the Special Stockholder's Meeting of the Corporation, the following proposed amendment to the By-Laws of the Corporation shall be submitted to the stockholders for approval:

A. Article III Section 1(a) thereof, amending the Corporation's composition of its Board of Directors increasing the number from nine (9) to eleven (11) members. The proposed amended portion of the By-Laws now reads:

'*Section 1(a).* ***Composition of the Board of Directors*** *- The Board of Directors shall be composed of eleven (11) members'*

As previously stated, with the acquisition of CSC and the additional subscription of shares of Udenna Management & Resources Corp. (UMRC), an increase in the composition of the board seat is suitable to accommodate additional and credible directors consistent with good corporate governance practice.

Item 18. Other Proposed Action

There are no other proposed actions to be approved***.***

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 amendment to the Articles of Incorporation and the investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

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.

Stockholders of record are entitled to one (1) vote per share. There is no manner of voting prescribed in the 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 of the Meeting:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held last 08 March 2012
4. Update on the Operation and Financial Highlights
5. Approval of Corporate Actions:

   a) Proposed Amendment of Article II on Secondary Purposes and Article VI on the number of directors contained in the Company's Articles of Incorporation

   b) Proposed Amendment of Article III Section 1(a) of the Company's By-laws on Composition of the Board of Directors

   c) Proposed Issuance of Php180,000,000.00 warrants in relation to the Issuance of Php500,000,000.00 Convertible Notes to BDO Unibank, Inc.

d) Proposed Acquisition of 100% shares of stock in Chelsea Shipping Corp.

6. Other Matters
7. Adjournment

PART II

INFORMATION REQUIRED IN A PROXY FORM

Item 1. Solicitor. The following proxies are being secured for the benefit of the Company. The Company has designated its President, Mr. Dennis A. Uy, as the person who shall vote the proxies gathered by the Company. The proxy form is intended to facilitate representation by stockholders and will be used for voting at the September 6, 2012 Special Stockholders Meeting to be held at the Marco Polo Hotel, Davao City, on the date and time and place stated above and in the Notice accompanying this Information Statement and at any postponements or adjournments thereof.

Item 2. Instructions. The Proxy Form, must be properly signed, dated and returned by the stockholder on or before August 27, 2012. Validation of proxies will be held at the Company's Principal office on September 1, 2012. For corporate shareholders, the proxy form must be accompanied by a corresponding secretary's certificate confirming the authority of the person executing the proxy.

Validated proxies will be voted at the Meeting in accordance with the authority and/or instructions of the stockholder expressed therein. Proxies which are not properly signed and dated, or which are received late, or which do not have an accompanying secretary's certificate (for corporate shareholders) shall not be voted at the Meeting.

Subject to a stockholder's right to revoke his own proxy as stated in Item 3 below, the proxy given by a stockholder shall be voted by the Company's President, Mr. Dennis A. Uy, in his absence, by the Chairman of the Board, Mr. Domingo T. Uy, with full power of substitution and delegation, in accordance with the authorization specifically granted by the stockholder.

> **If no specific authority and/or instruction is made in the Proxy Form, the shares of the stockholder will be voted FOR THE APPROVAL of the matters stated in the Proxy Form and all other matters for which stockholders; approval may be sought in the Meeting and at any postponements or adjournments thereof.**

Item 3. Revocability of Proxy. A stockholder giving a proxy has the power to revoke at any time before the right granted under and by virtue of such proxy is exercised, either: (a) by submitting a sworn statement revoking such proxy on or before September 2, 2012; or (b) by appearing at the Special Meeting in person and expressing his intention to vote in person.

Item 4. Persons Making the Solicitation. The Company is soliciting proxies. The proxy form is intended to facilitate representation by stockholders and will be used for voting at the 2012 Special Meeting of Stockholders to be held on the date and time and place stated above and in the Information Statement, and at any postponements and adjournments thereof.

As of the date the Information Statement and this Proxy Form are sent to stockholders of record, NO director has informed the Company in writing that he opposes any action intended to be taken by the Company at the Meeting. There are NO other participants in the solicitation of proxies through this Information Statement.

The Proxy Forms will be sent to stockholders mainly through the mail. Incidental solicitation in person or through telephone reminding stockholders to attend the Meeting may be made by the directors, officers and employees of the Company, for which be paid for such incidental solicitation.

The Company will bear the cost of preparing, collating and delivering to stockholders the Information Statement, the Proxy Form and the accompanying materials and the Company estimates expenditures for these to amount to about Php 1,000,000.00.

Item 5. Interest of Certain Persons in Matters to be Acted Upon. One of the matters to be acted upon during the Special Stockholders Meeting is the ratification of acquisition of the shares of stocks of CSC by the Company and the waiver of the rights or public offering of the shares to be issued to the selling stockholders of CSC. CSC is principally owned by the following: Udenna Management and Resources Corporation, Dennis A. Uy, Cherylyn C. Uy, Socorro Ermac-Cabreros, Ignacia S. Braga IV and Jose Manuel R. Quimson. Mr. Dennis Uy, Socorro Ermac-Cabreros and Jose Manuel R. Quimson are current directors of the Company.

PART III.
SIGNATURE

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

This report is signed in Davao City on **July 26, 2012.**

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

SOCORRO T. ERMAC CABREROS
Corporate Secretary

ANNEX A

COVER SHEET

A 2 0 0 2 0 7 2 8 3

S.E.C. Registration Number

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

P H I L I P P I N E S I N C.

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

(Company's Full Name)

S T E L L A H I Z O N R E Y E S R D.

B O. P A M P A N G A L A N A N G

D A V A O C I T Y

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

Dennis A. Uy

Contact Person

(082) 233-0168

Company Telephone Number

1 2	3 1	**SEC Form 17-Q**	3	**last Friday** XX
Month	Day	FORM TYPE	Month	Day
Fiscal Year Ending			Annual Meeting	

Secondary License Type, if applicable

Dept. Requiring this Doc

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel Concerned

File Number

LCU

Document I.D.

Cashier

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q, AS AMENDED

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

1. For the quarterly period ended:	March 31, 2012
2. SEC identification number:	A200207283
3. BIR Tax Identification No.	006-036-274
4. Exact name of issuer as specified in its charter	**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**
5. Province, country or other jurisdiction of incorporation or organization	Davao City, Philippines.
6. Industry Classification Code:	(SEC Use Only)
7. Address of issuer's principal office:	Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City
Postal Code:	8000
8. Issuer's telephone number, including area code:	(082) 233-0168
9. Former name, former address and former fiscal year, if changed since last report:	Not Applicable

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

Title of each class	Number of Shares Outstanding
COMMON	927,808,617.00
PREFERRED	5,000,000.00

Amount of Debt Outstanding as of March 31, 2012:	Php 7,820,743,815.00
11. Are any or all of the securities listed on the Stock Exchange?	Yes [✓] No [ ]

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

12. Check whether the issuer has:

(a)	has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports):	Yes [✓] No [ ]
(b)	has been subject to such filing requirements for the past ninety (90) days:	Yes [✓] No [ ]

TABLE OF CONTENT

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

	Notes	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	6	P 547,072,840	P 886,342,207
Trade and other receivables - net	7	3,312,786,922	2,787,942,121
Inventories	8	2,159,933,565	2,132,622,404
Land held for sale and land development costs	9	451,587,118	451,587,118
Due from related parties	23	10,393,449	9,480,803
Restricted deposits	10	79,474,891	69,036,837
Input value-added tax - net		218,184,135	226,507,521
Other current assets	11	172,649,718	167,647,224
Total Current Assets		6,952,082,638	6,731,166,235
NON-CURRENT ASSETS			
Installment contract receivable		-	9,002,788
Land held for future development	13	271,981,834	271,981,834
Advances for future investment	24	150,000,000	150,000,000
Property and equipment - net	12	3,349,478,359	3,288,614,119
Deferred tax assets	22	14,835,166	14,989,234
Other non-current assets	14	73,001,852	85,156,823
Total Non-current Assets		3,859,297,210	3,819,744,798
TOTAL ASSETS		P 10,811,379,848	P 10,550,911,033
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	15	P 5,821,846,690	P 3,772,195,945
Trade and other payables	16	600,067,836	2,404,549,895
Total Current Liabilities		6,421,914,525	6,176,745,840
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	15	1,148,984,239	1,300,986,896
Other non-current liabilities	17	249,845,052	209,819,730
Total Non-current Liabilities		1,398,829,290	1,510,806,626
Total Liabilities		7,820,743,815	7,687,552,466
EQUITY			
Common stock	24	489,872,415	489,872,215
Preferred stock	24	5,000,000	5,000,000
Additional paid-in capital	24	802,774,593	802,774,593
Stock Dividend Distributable	24	244,936,202	
Retained earnings	25	1,448,052,823	1,565,711,759
Total Equity		2,990,636,033	2,863,358,567
TOTAL LIABILITIES AND EQUITY		P 10,811,379,848	P 10,550,911,033

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 PERIOD ENDED MARCH 31, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	1st Quarter 2012 (Unaudited)	1st Quarter 2011 (Unaudited)
REVENUES			
Sale of goods - net		P 8,203,910,546	P 6,066,986,317
Fuel service, storage income and other revenues		66,875,535	44,049,293
		8,270,786,081	6,111,035,610
COST AND EXPENSES			
Cost of sales and services	18	7,677,271,406	5,599,821,002
Selling and administrative expenses	19 , 20	299,477,343	230,625,332
		7,976,748,748	5,830,446,334
OTHER INCOME (CHARGES)			
Finance costs		(106,653,876)	(91,930,366)
Others		7,822,578	(239,412)
		(98,831,298)	(92,169,778)
PROFIT BEFORE TAX		195,206,035	188,419,498
TAX INCOME (EXPENSE)	22	(4,566,528)	(3,279,558)
TOTAL COMPREHENSIVE INCOME		P 190,639,507	P 185,139,941
Earnings per share	25	P 0.36	P 0.45

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 PERIOD ENDED MARCH 31, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	March 31, 2012 (Unaudited)	March 31, 2011 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 195,206,035	P 185,139,941
Adjustments for:			
Interest expense		108,415,105	93,152,949
Depreciation and amortization	12	61,398,445	32,883,790
Impairment losses	19	900,000	900,000
Interest income		(1,761,228)	(1,222,583)
Operating profit before working capital changes		364,158,356	310,854,097
Increase in:			
Trade and other receivables		(525,744,801)	561,041,508
Inventories		(27,311,161)	(610,692,593)
Decrease (increase) in:			
Land held for sale and land development costs		-	-
Restricted deposits		(10,438,054)	(14,666,135)
Input value-added tax		8,323,386	(84,139,051)
Increase in other current assets		(5,002,494)	(5,467,819)
Decrease (increase) in installment contract receivable		9,002,788	18,005,640
Increase in trade and other payables		(1,804,482,059)	(305,677,632)
Cash generated from (used in) operations		(1,991,494,039)	(130,741,984)
Cash paid for income taxes		(4,566,528)	-
Net Cash From (Used in) Operating Activities		(1,996,060,567)	(130,741,984)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net acquisitions of property and equipment	12	(122,262,685)	(278,659,904)
Advances for future investment	24	-	
Decrease (increase) in land held for future development			(339,989)
Net increase in other non-current assets		12,309,039	(160,406,731)
Interest received		1,761,228	1,222,583
Advances from (repayments to) related parties - net	23	-	
Net Cash Used in Investing Activities		(108,192,417)	(438,184,041)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in interest-bearing loans and borrowings		1,897,648,087	690,721,554
Interest paid		(108,415,105)	(93,152,949)
Increase in other non-current liabilities		40,025,322	69,949,485
Payments of cash dividends	23	(63,362,242)	(37,682,494)
Borrowings from (repayments to) parent company		(912,646)	(53,106,188)
Proceeds from issuance of shares of stock/adjustment	24	201	-
Repayments of due to related parties			
Net Cash From Financing Activities		1,764,983,617	576,729,408
NET INCREASE IN CASH AND CASH EQUIVALENTS		(339,269,367)	7,803,383
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		886,342,207	605,444,745
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6	P 547,072,840	P 613,248,128

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 PERIOD ENDED MARCH 31, 2012 AND 2011
(Amounts in Philippine Pesos)

	Note	March 31, 2012 (Unaudited)	March 31, 2011 (Unaudited)
PREFERRED STOCK	24		
Balance at beginning of year		P 5,000,000	P 5,000,000
Issuance during the year		-	-
Balance at end of year		5,000,000	5,000,000
COMMON STOCK	24		
Balance at beginning of year		489,872,415	376,824,940
Issuance during the year		-	-
Balance at end of year		489,872,415	376,824,940
ADDITIONAL PAID-IN CAPITAL	24		
Balance at beginning of year		802,774,593	802,778,234
Reclassification to capital stock			
Additions during the year		-	-
Balance at end of year		802,774,593	802,778,234
STOCK DIVIDEND DISTRIBUTABLE	24		
Additions during the year		244,936,202	-
Balance at end of year		244,936,202	-
TREASURY SHARES - At Cost	24		
Balance at beginning of year		-	-
Issuance during the year		-	-
Balance at end of year		-	-
RETAINED EARNINGS			
Balance at beginning of year		1,565,711,759	1,276,604,552
Net profit		190,639,507	185,139,941
Stock dividends	24	(244,936,202)	
Cash dividends	24	(63,362,242)	(37,682,494)
Balance at end of year		1,448,052,823	1,424,061,999
TOTAL EQUITY		P 2,990,636,033	P 2,608,665,173

See Notes to Consolidated Financial Statements.

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

1. CORPORATE INFORMATION

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

The Parent Company's shares of stocks are listed with the Philippine Stock Exchange (PSE). The Parent Company is presently engaged in trading of petroleum products on wholesale basis and operating of oil depots, storage facilities and allied services.

PPHI was incorporated in the Philippines on May 31, 2006. PPHI's primary purpose is to provide management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises. PPHI's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

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

The Parent Company has a total of 240 service stations, including 63 service stations in Luzon, 12 in the Visayas and 165 in Mindanao operating as of March 31, 2012 and there are a total of 59 service stations under construction as of March 31, 2012.

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

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

Moreover, in 2011 the Company acquired a 100% interest in Subic Petroleum Trading and Transport Phils., Inc. (SPTT).

All the subsidiaries were organized and incorporated in the Philippines.

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

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

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

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

Various Standards : 2010 Annual Improvements to PFRS

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

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

(ii) PAS 34 (Amendment), *Interim Financial Reporting – Significant Event and Transactions* (effective from January 1, 2011). The amendment provides further guidance to illustrate how to apply disclosure principles under PAS 34 for significant events and transactions to improve interim financial reporting. It requires additional disclosures covering significant changes to fair value measurement and classification of financial instruments, and to update relevant information from the most recent annual report. The adoption of the amendment did not have material effect on the Group's consolidated financial statements.

(iii) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements and it does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its consolidated financial statements.

(iv) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;

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

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

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

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

(v) PFRS 3 (Amendment), *Business Combinations* (effective from July 1, 2010). The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the
non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Group had business acquisition during the year and duly complied with the provision of the amended standard.

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

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. As the Group currently has no other comprehensive income, the Group, however, has elected to continue presenting each item of other comprehensive income, if any, in the consolidated statement of changes in equity.

- PAS 27 (Amendment), *Consolidated and Separate Financial Statements* (effective from July 1, 2010). This amendment clarifies that the consequential amendments made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investment in Associate*, and, PAS 31, *Investment in Joint Ventures*, arising from the PAS 27 (2008) amendments apply prospectively, to be consistent with the related PAS 27 transition requirements.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security.

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

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

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

(c) Effective Subsequent to 2011 but not Adopted Early

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

i. PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its consolidated financial statements.

ii. PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39 in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

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

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

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

iii. PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.

iv. PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects that this will not affect the presentation of items in other comprehensive income, since currently the Group has not recognized any other comprehensive income.

v. PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset on an investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) measured at fair value that is held with an objective to consume substantially the economic benefits embodied in the asset over time, rather than through sale. As a result of the amendment, Standard Interpretation Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets,* is accordingly withdrawn. This amendment is not expected to have an effect on the Group's consolidated financial statements as the Group has no investment property.

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

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

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

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

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

vii. Consolidation Standards

- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 12, *Disclosure of Interest in Other Entities* (effective from January 1, 2013). This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised), *Separate Financial Statements* (effective from January 1, 2013). This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements standard have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.

- PAS 28 (Revised), *Investments in Associate and Joint Venture* (effective from January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement.*

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

2.3 Basis of Consolidation

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

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

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

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

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

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

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

2.4 Financial Assets

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

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

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

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

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

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

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

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

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

2.5 Inventories

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

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

2.6 Land Held for Sale and Land Development Costs

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

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

2.7 Land Held For Future Development

Land held for future development is valued at the lower of cost and net realizable value. Cost includes purchase price and other costs directly attributable to the acquisition of land.

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

2.8 Property and Equipment

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

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

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

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

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.17)and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted, if appropriate, at the end of each reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss the year the item is derecognized.

2.9 Financial Liabilities

Financial liabilities, which include interest-bearing loans and borrowings, trade and other payables, Due to Parent Company and Security Deposits (presented under Other Non-Current Liabilities in the consolidated statement of financial position), are recognized when the Group becomes a party to the contractual terms of the instrument. All
interest-related charges incurred on financial liability are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of comprehensive income.

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

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

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

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

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

2.10 Provisions

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

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Business Combinations

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

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

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

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

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

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

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

2.12 Revenue and Expense Recognition

Revenue comprises revenue from the sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding value-added tax (VAT) and trade discounts.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, i.e. when the customer has acknowledged delivery of goods.

(b) *Fuel service, storage income and other revenues* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. This account includes franchise income, which has minimal amount. In addition, this includes revenue arising from port and cargo handling services. Revenue from port operations is recognized when services are rendered.

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

(d) *Rent income* – Revenue is recognized on a straight-line basis over the lease term.

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

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

2.13 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

Leases, which do not transfer substantially all the risks and benefits of ownership to the Group, are classified as operating lease. Operating lease payments are recognized as expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) Group as Lessor

Leases, wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases, and presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding with respect to the finance lease.

Leases, which do not transfer substantially all the risks and benefits of ownership of the asset to the lessee, are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment whether the fulfilment of the arrangement depends on the use of a specific asset(s) or it conveys a right to use the asset.

2.14 Foreign Currency Transactions

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

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

2.15 Impairment of Non-financial Assets

The Group's property and equipment and goodwill (presented as part of Other Non-Current Assets) and advances for future investment are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels where there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

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

All assets are subsequently reassessed for indications that an impairment loss, which was previously recognized, no longer exists. The carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.16 Employee Benefits

(a) Post-employment Benefits

Post-employment benefits are provided to employees through a defined benefit plan.

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement. It usually depends on one or more factors such as age, years of service and salary. The legal obligation for any benefit from this kind of post-employment plan remains with the Group, even if plan assets, if any, have been acquired to fund the defined benefit plan. Plan assets, if any, may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's post-employment benefit pension plan covers all regular full-time employees.

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

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

(b) Compensated Absences

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

(c) Share-Based Payments

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

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

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

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

2.17 Borrowing Costs

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

2.18 Income Taxes

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

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of each reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax income in profit or loss.

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

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

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

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

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

2.19 Related Party Transactions

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

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

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

2.20 Segment Reporting

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

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

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

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

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

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

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

2.21 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

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

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

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

2.22 Basic Earnings per Share

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) Operating and Finance Leases

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

(b) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.10 and relevant disclosure is presented in Note 28.

(c) Qualifying Assets on Borrowing Costs

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

3.2 Key Sources of Estimation Uncertainty

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

(a) Allowance for Impairment of Trade and Other Receivables

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

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7.

(b) Determining Net Realizable Value of Inventories

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

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

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

(d) Useful Lives of Property and Equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analyzed in Note 12. Based on management's assessment as at December 31, 2011 and 2010, there is no change in the estimated useful lives of the property and equipment during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Impairment of Non-financial Assets

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

The management has assessed that there are no impairment losses to be provided on property and equipment and goodwill in 2011, 2010 and 2009.

(f) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The carrying value of deferred tax assets as of December 31, 2011 and 2010 is disclosed in Note 23.

(g) Liability for Land Development

Obligations to complete development of real estate are based on actual costs and project estimates of contractors and Group's technical staff. These costs are reviewed at least annually and are updated if expectations differ from previous estimates. Liability to complete the project for sold units included in the determination of cost of sales are presented as part of accrued expenses under Trade and Other Payables account in the consolidated statements of financial position amounted to P59.9 million and P1.1 million as of December 31, 2011 and 2010, respectively (see Note 16).

(h) Retirement and Other Benefits

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

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 21.2.

(i) Estimating Development Costs

The accounting for real estate requires the use of estimates in determining costs and gross profit recognition. Cost of real estate sold includes estimated costs for future development. The development cost of the project is estimated by the Group's technical staff. At the end of reporting period, these estimates are reviewed and revised to reflect the current conditions, when necessary.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarized in Note 5. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its parent company, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short- to medium-term cash flows by minimizing the exposure to financial markets.

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

4.1 Market Risk

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

(a) Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's sales to a certain customer and fuel importation, which are primarily denominated in U.S. dollars. The liability covering the importation is covered by letter of credits which is subsequently closed to Philippine peso trusts receipts (TRs). As of December 31, 2011 and 2010, the Group has no U.S. dollar denominated liabilities. The Group also holds U.S. dollar-denominated cash and cash equivalents.

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

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

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

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

(b) Interest Rate Sensitivity

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowing interest rates range from 6.4% to 10.25% per annum. At March 31, 2012 and December 31, 2011, the Group is exposed to changes in market interest rates through its cash and cash equivalents and bank borrowings, which are subject to variable interest rates (see Notes 6 and 15). All other financial assets and liabilities have fixed rates.

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

	2011		2010		2009	
	+ 182/80	**- 182/80**	+190/ 90	-190/ 90	+190/ 90	-190/ 90
Profit before tax	**(P57,476,490)**	**P57,476,490**	(P 55,383,622)	P55,383,622	(P34,489,575)	P 34,489,575

(c) Market Price Risk

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

4.2 Credit Risk

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

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

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

	Notes	**March 31, 2012**	December 31, 201
Cash and cash equivalents (excluding cash on hand)	6	**P 544,020,494**	P 880,334,942
Trade and other receivables - net	7	**3,265,254,213**	2,787,942,121
Due from related parties	24.4	**10,393,449**	9,480,803
Restricted deposits	10, 14	**79,474,891**	70,322,343
Refundable rent deposits	14	**62,846,748**	71,878,456
Installment contract receivable		**47,532,709**	9,002,788
		P 4,009,522,504	P 3,828,971,453

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 P3.1 million as of March 31, 2012 and P6.0 million as of December 31, 2011 (see Note 6). Cash in banks, which are insured by the Philippine Deposit Insurance Corporation up to maximum coverage of P500,000 per depositor per banking institution, as provided for under Republic Act (RA) 9302, *Charter of Philippine Deposit Insurance Corporation*, are still subject to credit risk.

(b) Trade and Other Receivables

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good.

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

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

	March 31, 2012	December 31, 2011
Not more than one month	**P 254,102,409**	P 202,814,458
More than one month but not more than two months	**24,385,288**	2,732,378
More than two months but not more than six months	**13,909,821**	17,211
More than six months but not more than one year	**6,625,671**	66,612,974
More than one year	**67,886,547**	106,972,582
	P 366,909,736	P 379,149,603

4.3 Liquidity Risk Analysis

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

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

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

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

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

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

5. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	Notes	March 31, 2012		December 31, 2011	
		Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	6	**P 547,072,840**	**P 547,072,840**	P 886,342,207	P 886,342,207
Trade and other receivables - net	7	**3,265,254,213**	**3,265,254,213**	2,787,942,121	2,787,942,121
Due from related parties	24.4	**10,393,449**	**10,393,449**	9,480,803	9,480,803
Restricted deposits	10, 14	**79,474,891**	**79,474,891**	70,322,343	70,322,343
Refundable rent deposits	14	**62,846,748**	**62,846,748**	71,878,456	71,878,456
Installment contract receivable		**47,532,709**	**47,532,709**	9,002,788	9,002,788
		P 4,012,574,850	**P4,012,574,850**	P3,834,968,718	P3,834,968,718
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	15	**P6,970,830,928**	**P6,970,830,928**	P5,073,182,841	P 5,073,182,841
Trade and other payables	16	**600,067,836**	**600,067,836**	2,404,549,895	2,404,549,895
Security deposits	17	**183,293,931**	**183,293,931**	147,463,104	147,463,104
		P 7,754,192,695	**P7,754,192,695**	P7,625,195,840	P7,625,195,840

6. CASH AND CASH EQUIVALENTS

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

	March 31, 2012	December 31, 2011
Cash on hand	**P 3,052,346**	P 5,997,265
Cash in banks	**382,959,086**	497,868,964
Short-term placements	**161,061,408**	382,475,978
	P 547,072,840	P 886,342,207

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have maturity ranging from 7 to 90 days and earn effective interest ranging from 2.1% to 4.8% per annum in 2012 and 2011.

The balances of the cash on hand and in banks as of March 31, 2012 and December 31, 2011 did not include an amount of P79.5 million and P70.2 million, respectively, which are shown as Restricted Deposits account in the consolidated statements of financial position (see
Notes 10 and 14). Such amount is not available for the general use of the Group in accordance with a restriction under a loan covenant (see Note 15.1).

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Note	**March 31, 2012**	December 31, 2011
Trade receivables	24.1	**P2,863,076,823**	P 2,370,976,256
Advances to suppliers	24.2	**371,438,053**	358,776,492
Non-trade receivables	24.5	**154,693,004**	134,124,602
Other receivables		**11,536,061**	10,941,790
		3,400,563,941	2,874,819,140
Allowance for impairment		**(87,777,019)**	(86,877,019)
		P 3,312,786,922	P 2,787,942,121

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 March 31, 2012 and December 31, 2011 is shown below:

	Note	**March 31, 2012**	December 31, 2011
Balance at beginning of year		**P 86,877,019**	P 56,530,443
Impairment loss during the year	20.1	**900,000**	23,668,913
Reclassification			7,474,056
Write-off of receivables			(796,393)
Balance at end of year		**P 87,877,019**	P **86,877,019**

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:

	March 31, 2012	December 31, 2011
Fuel	**P 1,948,944,822**	P 1,924,942,071
Lubricants	**209,569,908**	207,656,621
Others	**1,418,835**	23,712
	P 2,159,933,565	P 2,132,622,404

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying value of P2,158.5 million and P2,116.6 million as of March 31, 2012 and December 31, 2011, respectively, have been released to the Group in trust for the bank. The Group is accountable to the bank for the trusteed inventories or their sales proceeds (see Note 15.1).

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

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

9. LAND HELD FOR SALE AND LAND DEVELOPMENT COSTS

The land held for sale and land development costs stated at cost relate to the following as of March 31, 2012 and December 31, 2011:

Land held for sale	**P 433,484,266**
Land development costs	**18,102,852**
	P 451,587,118

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

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

10. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various banking credit facilities covered by hold-out agreements (see Note 6 and 15.1) amounting to P79.5 million and P69 million as of March 31, 2012 and December 31, 2011. As such, these are restricted as to withdrawals. The proceeds from availment of the banking credit facilities by the Group are used for the purpose of purchasing fuel and lubricant supplies (see Note

15.1). Interest rates for this type of deposit range from 3.125% to 5.975% per annum both in 2012 and 2011.

11. OTHER CURRENT ASSETS

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

	March 31, 2012	December 31, 2011
Prepayments	**P 131,793,681**	P 122,369,099
Creditable withholding tax	**23,117,720**	29,748,788
Supplies	**8,639,655**	7,220,852
Others	**9,098,662**	8,308,485
	P 172,649,718	P 167,647,224

12. PROPERTY AND EQUIPMENT

March 31, 2012		
Land		P 164,684,194
Property, Plant and Equipments	2,856,988,264	
Less: Accumulated Depreciation	(417,853,184)	2,439,135,080
Net Book Value-March 31, 2011		P 2,603,819,274

December 31, 2011		
Land		P 164,684,194
Property, Plant and Equipments	3,703,596,974	
Less: Accumulated Depreciation	(403,267,560)	2,193,358,966
Net Book Value-December 31, 2010		P 3,288,614,119

Certain property and equipment with an aggregate carrying value of P25.4 million and P26 million as of March 31, 2012 and December 31, 2011 respectively, are mortgaged with local banks (see Note 15).

13. LAND HELD FOR FUTURE DEVELOPMENT

Land held for future development represents the Group's land property totaling to 44 hectares in Phase 2 and 3 of the Park that are intended for sale once developed.

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

14. OTHER NON-CURRENT ASSETS

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

	March 31, 2012	December 31, 2011
Refundable rent deposits	**P 40,938,430**	P 49,970,137
Deferred minimum lease payments	**20,238,786**	21,908,319
Goodwill	**11,488,810**	11,488,810
Restricted time deposits	**-**	1,285,506
Others	**335,826**	504,051
	P 73,001,852	P 85,156,823

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

Goodwill amounting to P11.5 million and P11.5 million as of March 31, 2012 and December 31, 2011, respectively, represents the excess of acquisition cost over the Group's share in the fair value of identifiable net assets of the acquired subsidiaries at the date of the acquisition.

15. INTEREST-BEARING LOANS AND BORROWINGS

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

	March 31, 2012	December 31, 2011
Current:		
Liabilities under letters of credits and trust receipts	**P5,407,700,000**	P**3,449,608,928**
Installment and notes payable	**398,718,594**	**306,994,915**
Mortgage payable	**15,428,096**	**15,592,102**
	P 5,821,846,690	**P 3,772,195,945**
Non-current:		
Installment and notes payable	**P 1,134,797,767**	**P 1,287,469,333**
Mortgage payable	**14,186,472**	**13,517,563**
	P 1,148,984,239	**P 1,300,986,896**

15.1 Liabilities Under Letters of Credits and Trust Receipts

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

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

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

15.2 Installment and Notes Payable

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

The notes payable represents borrowings from local banks with interest rates ranging from 7% to 10.25% per annum and will mature within five to seven years. The loans which are secured by the Group's certain property and equipment is payable quarterly (see Note 12).

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

15.3 Mortgage Payable

The mortgage payable represents secured loans which bear interest rates ranging from 7.6% to 11.4% per annum, and with terms ranging from 18 months to 36 months. The mortgages are secured by certain service vehicles of the Group, presented as part of Property and Equipment account in the consolidated statements of financial position (see Note 12).

15.4 Credit Line

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

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

16. TRADE AND OTHER PAYABLES

This account consists of:

	Note	**March 31, 2012**	December 31, 2011
Trade payables	24.2	**P 417,206,133**	P 2,040,634,593
Accrued expenses		**121,315,545**	166,794,707
Advances from customers and locators		**36,287,457**	153,090,113
Others		**25,258,701**	44,030,492
		P 600,067,836	P 2,404,549,895

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

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

The carrying amount of trade and other payables, which are expected to be settled within the next 12 months from reporting period, is a reasonable approximation of their fair value (see Note 5).

17. OTHER NON-CURRENT LIABILITIES

This account consists of:

	Note	March 31, 2012	December 31, 2011
Security deposits		**P 183,624,764**	P 147,463,104
Unearned rent		**54,999,483**	51,131,981
Retirement benefit obligation	21.2	**10,397,071**	10,397,071
Others		**823,734**	827,574
		P 249,845,052	P 209,819,730

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

18. COST OF SALES AND SERVICES

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

18.1 Cost of Fuels and Lubricants Sold

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

	Note	March 31, 2012	March 31, 2011
Inventories at beginning of year	8	**P2,132,622,404**	P 1,051,658,928
Net purchases during the period		**7,670,220,014**	6,180,338,617
Goods available for sale		**9,802,842,418**	7,231,997,545
Inventories at end of the period	8	**(2,159,933,565)**	(1,662,351,521)
		P7,642,908,853	P 5,569,646,024

19. OPERATING EXPENSE BY NATURE

The details of operating expenses by nature are shown below:

	Notes	**March 31, 2012**	**March 31, 2011**
COST OF SALES and SERVICES:			
Fuels	18.1	7,601,517,515	5,531,221,281
Lubricants	18.1	41,391,338	38,424,743
Cost of Services		34,362,553	30,174,978
OPERATING EXPENSES:			
Salaries and employees' benefits	20	32,689,465	30,589,310
Depreciation and amortization	12	61,398,445	32,883,790
Trucking charges		11,842,033	15,920,160
Fuel, oil and lubricants		14,831,162	8,860,779
Advertisements and promotion		30,542,085	30,512,928
Rent		42,953,986	32,687,433
Office supplies		2,058,534	1,480,084
Repairs and maintenance		8,379,184	9,411,418
Travel and transportation		7,360,704	5,648,086
Professional fees		11,085,615	5,632,695
Taxes and licenses		13,809,450	6,460,073
Representation		2,531,619	2,014,442
Insurance		6,387,168	9,598,481
Bank charges		1,655,409	6,223,108
Documentary Stamps		21,826,362	10,802,037
Security fees		5,854,214	2,810,964
Dues and Subscription		1,839,513	1,472,874
Service Fee		9,162,799	7,075,181
Utilities		6,774,066	4,711,134
Provisions for Bad Debts		900,000	900,000
Rebates		5,158,138	3,562,299
Miscellaneous		437,391	1,368,055
TOTAL		**7,976,748,748**	**5,830,446,334**

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

	Note	**March 31, 2012**	March 31, 2011
Cost of sales			
and services	18	**P 7,677,271,406**	P 5,599,821,002
Operating expenses		**299,477,343**	230,625,332
		P 7,976,748,748	P 5,830,446,334

20. SALARIES AND EMPLOYEE BENEFITS

20.1 Salaries and Employee Benefits Expense

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

	March 31, 2012	**March 31, 2011**
Salaries and Wages	P 25,274,841	P 22,878,761
13th Month Pay	2,085,777	612,827
Other Benefit and Bonuses	5,328,847	7,097,722
	P 32,689,465	**P 30,589,310**

20.2 Post-employment Benefits

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

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

	2011
Present value of obligation	**P 11,127,336**
Unrecognized actuarial losses	**(730,265)**
	P 10,397,071

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

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

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

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

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

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

		2011
Present value of the obligation	P	11,397,071
Experience adjustments arising on plan liabilities		-

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

	2011
Discount rate	10.44%
Expected rate of salary increase	10.00%

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

The Group will fund the retirement benefit obligation in 2012.

21. REGISTRATION WITH THE BOARD OF INVESTMENTS

21.1 BOI Registration as New Industry Participant – Davao Depot

The Parent Company was registered with the Bureau of Investments (BOI) on November 16, 2005, as a new industry participant with new investment in storage, marketing and distribution of petroleum products under RA No. 8479 (Downstream Oil Industry Deregulation Act). Under its registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Parent Company is also entitled to certain tax and non-tax incentives as follows:

(a) Income tax holiday (ITH) for five years from November 16, 2005 without extension or bonus year from the date of registration;

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

(c) The Parent Company may qualify to import capital requirement, spare parts and accessories at zero percent (0%) from the date of registration up to June 16, 2011 pursuant to the Executive Order No. 528 and its implementing rules and regulations.

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

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

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

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

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

22.1 BOI Registration as New Industry Participant – Batangas Depot

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

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

22.2 BOI Registration as New Industry Participant – Zamboanga Depot

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

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

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

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

22. TAXES

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

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

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

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

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

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

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

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

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

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

In 2011 the Group opted to claim itemized deductions.

23. RELATED PARTY TRANSACTIONS

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

23.1 Sale of Goods

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

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

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

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

23.2 Purchase of Services

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

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

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

23.3 Rentals

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

23.4 Due from Related Parties

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

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

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

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

23.5 Advances Subject for Liquidation

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

23.6 Loan Collateral

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

23.7 Advances to/from Subsidiaries

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

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

23.8 *Management Fees*

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

(a) to secure and maintain a strong market position for PPIPC in the real estate industry;

(b) sustain the long-term profitability of PPIPC; and,

(c) develop a core of competent and effective management professionals in PPIPC.

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

23.9 *Advances for Future Investment*

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

24. EQUITY

24.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	March 31 ,2012	2011	2010	**March 31, 2012**	2011	2010
Preferred – cumulative, nonvoting, non-participating, non-convertible into common shares - P1 par value						
Authorized:	50,000,000	50,000,000	50,000,000	P 50,000,000	P 50,000,000	P 50,000,000
Issued and outstanding	**5,000,000**	5,000,000	5,000,000	**P 5,000,000**	P 5,000,000	P 5,000,000
Common shares – P1 par value						
Authorized:						
Balance at beginning of year	**750,000,000**	750,000,000	400,000,000	**P 750,000,000**	P 750,000,000	P400,000,000

Increase in authorized stock	**-**	-	350,000,000	**-**		350,000,000
Balance at end of year	**750,000,000**	750,000,000	750,000,000	**P 750,000,000**	P 750,000,000	P400,000,000
Balance at beginning of year	**489,872,415**	376,824,940	269,160,875	**P 489,872,415**	P 376,824,940	P269,160,875
Stock dividends		113,043,634	73,664,065		113,043,634	107,664,065
Reclassification		3,841			3,841	
Balance at end of year	**489,872,415**	489,872,415	376,824,940	**P 489,872,415**	P489,872,415	P376,824,940

On September 7, 2010, the SEC approved the Parent Company's increased in authorized capital stock from P400.0 million divided into 400.0 million common shares with a par value of P1 per share to P800.0 million divided into 750.0 million common shares with par value of P1 per share and 50.0 million preferred shares with par value of P1 per share.

The preferred shares shall have the following features:

(a) Non-convertible into common shares;

(b) Non participating in any other corporation activities or other further dividends, non-voting except in cases specified by law;

(c) No pre-emptive rights over the holders of common shares as to distribution of net assets in the event of dissolution or liquidation and in the payment of dividends at a specified rate. The Board of Directors shall determine its issued value at the time of issuance and shall determine its dividend rates and the dividends shall be paid cumulatively; and,

(d) The preferred shares shall be redeemable at the Parent Company's option under such terms as the Board of Directors may provide at the time of issuance. It shall also be re-issuable when fully redeemed.

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

(a) Dividends on the Preferred Shares shall have a fixed rate of 11.50% per annum calculated in respect of each share with reference to the Issue Price thereof in respect to each dividend period.

(b) Dividends shall be payable every September 21, December 21, March 21 and June 21 of each year (each a "Dividend Payment Date"). The dividends on the Preferred Shares shall be calculated on a 30/360 day basis and shall be paid quarterly in arrears on the last day of each 3-month dividend period (each a Dividend Payment Date), as and if declared by the Board of Directors. If the Dividend Payment Date is not a banking day, dividends shall be paid on the next

succeeding banking day, without adjustment as to the amounts of dividends to be paid.

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

Moreover, the subscription agreement requires that the Parent Company undertakes to maintain a long-term debt to equity ratio of 1:1 throughout the life of the preferred shares. The long-term debt to equity of the Company as of March 31, 2012 is 0.47 : 1 which more than complies the aforementioned covenant.

As of December 31, 2011 and 2010, the Parent Company has 41 stockholders owning 100 or more shares each of the Parent Company's capital stock.

Based on its plans, the Board of Directors of the Parent Company will also declared and distribute in 2012 cash dividends out of the Parent Company's retained earnings as of December 31, 2011.

24.2 Listing with PSE

On July 11, 2007, the Parent Company offered its stocks for listing with the PSE. Number of common shares registered was 145.0 million with an issue price of P9.80. As of December 31, 2011, the number of holders of such securities is 41. The market price of the Parent Company's shares as of December 31, 2011 is P11.28.

24.3 Additional Paid-in Capital

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

In 2009, the Social Security System (SSS) has bought an initial 2.83% stake in the Parent Company representing 7.5 million subscribed common shares for P42.0 million or at P5.60

per share. The excess of par value for such subscription amounting to P34.5 million was recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

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

24.4 Treasury Shares – At Cost

The details of this account are as follows:

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

24.5 Retained Earnings

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

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

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

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

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

24.6 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and,
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

	March 31, 2012	December 31, 2011
Total liabilities	**P 7,820,743,815**	P7,687,552,446
Total equity	**2,990,363,033**	2,863,358,567
Debt-to-equity ratio	**2.62 : 1.0**	2.68 : 1.0

The increase of the total liabilities in 2011 is the result of the additional borrowings for the procurement of petroleum and construction of depot facilities and retail stations. The increase in equity is due to the accumulated earnings.

The Group's goal in capital management is to maintain a debt-to-equity structure ratio of 2.7 to 1.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

25. EARNINGS PER SHARE

Earnings per share were computed as follows:

	March 31, 2012	March 31, 2011
Net profit pertaining to common shares	**P 176,264,507**	P 170,764,941
Divided by weighted average number of outstanding common shares	**489,872,415**	376,824,940
Earnings per share	**P 0.36**	P 0.45

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

26. COMMITMENTS AND CONTINGENCIES

26.1 Capital Commitments

As of December 31, 2011, the Group has commitments of more than P1,000.0 million for expansion on petroleum retail network, depot, terminalling and logistics facilities, information technology infrastructure and other major expansions related to its business development. The Group has a network of 240 opened retail service stations as of March 31, 2012. An additional of 59 retail service stations are under various stages of completion as of March 31, 2012.

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

26.2 Letters of Credits

As of March 31, 2012 and December 31, 2011, the Parent Group has unused LCs amounting to P3,155.0 million and P6,600.0 million, respectively.

26.3 Operating Lease Commitments – Group as Lessee

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

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

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

26.4 Operating Lease Commitments – Group as Lessor

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

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

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

26.5 Others

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

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not given recognition in the consolidated financial statements. As of March 31, 2012, the management believes that losses, if any, that may arise from these commitments and contingencies will not have material effects on the consolidated financial statements.

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

Comparable discussion on Material Changes in Results of Operations for the three Months' Period Ended March 31, 2012 vs. March 31, 2011.

Revenues

The Group generated total revenues of ₱ 8.271 billion in 2012 which is 35% higher than its 2011 level of ₱ 6.111 billion, primarily due to the 97% increase in sales volume of refined petroleum products plus higher revenues from fuels service and storage.

Sales revenues from trading and distribution of petroleum products increased by 35% from ₱ 6.067 billion in 2011 to ₱ 8.204 billion in 2012 resulting principally from a wider distribution network and expanded institutional customer base and also as a result of improved price competitiveness. Average selling price for the current year is also higher by 10% at ₱39.67 per liter compared to ₱36.10 per liter during the same period in 2011 as a factor of higher average crude prices and product sales mix. The Parent Company had two hundred forty (240) Phoenix Fuels Life retail service stations as of March 31, 2012 compared to one hundred seventy eight (178) retail stations as of the same period last year. The Parent Company has a number of retail stations undergoing construction and projected to be opened within the year.

The Group generated ₱ 66 million from its fuels service, storage, port and other income in 2012 versus ₱ 44 million in 2011, a 52% increase compared to the same period last year.

Cost and expenses

The Group recorded cost of sales and services of ₱ 7,677 billion, an increase of 37% from its 2011 level of P 5.560 billion primary due to 23% increase in the sales volume of petroleum products. Average unit costs this year were also higher compared to the same period last year as a result of higher petroleum product prices.

Selling and administrative expenses increased as a result of the increasing volume and the continuous expansion of the Group's business operations. With its growing retail presence nationwide and the scaling-up of operations, the Company incurred additions in manpower, and logistics costs including depreciation of facilities.

Net Income

The Group's net income for the first quarter of 2012 is ₱ 190.6 million versus 2011 first quarter net income of ₱ 185.1 million. In spite to the decline in gross profit rate due to the sales mix, the increase in volume fuelled the increase in net income amount.

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

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

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

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

Financial Condition
(As of March 31, 2012 versus December 31, 2011)

Total resources of the Group as of March 31, 2012 stood at ₱ 10.811 billion, a growth of 2% over the ₱ 10.551 billion as of December 31, 2011.

Cash and cash equivalents decreased by only 38% from ₱ 886 million to ₱ 547 million due to timing in settling various liabilities.

The Group's liquidity position continued to be strong with Current Assets amounting to ₱ 6.952 billion as of March 31, 2012, up from ₱ 6.731 billion as of December 31, 2011.

Trade and other receivables decreased by 39%, from ₱ 2.787 billion as of December 31, 2011 to ₱ 3.313 billion as of March 31, 2012, which were mainly driven increasing sales. The Group continue to enhance its credit policies to minimize overdue customer past due accounts.

Inventories increased barely by 1%, from ₱ 2.133 billion as of December 31, 2011 to ₱ 2.313 billion as of March 31, 2011 as the Group's inventory strategy of maintaining inventory level ranging from 20 days to one month.

Due from related parties and Due to parent company in March 31, 2012 and December 31, 2011 is ₱ 10.4 million and ₱ 9.5 million respectively. The increase of 10% is due to various charges to related party during the year.

Input taxes decrease by 4% in 2012 is the result of offsetting of more output taxes this year due to increasing sales.

Other current assets are at ₱ 172.6 million and ₱ 167.6 million level for March 31, 2012 and December 31, 2011 respectively. The increase represents the prepaid rentals on leased retail service stations properties and depot sites, prepaid insurance and other current assets.

As of March 31, 2012, the Group's property and equipment, net of accumulated depreciation, increased to ₱ 3.349 billion compared to ₱ 3.289 billion as of December 31, 2011 due to investments in additional depot capacity in existing areas and new additional sites. During first quarter, the Parent Company has completed its Depot facility in Bacolod City, additional storage tanks in Calaca, Batangas and Davao City plus retail stations in Luzon, Mindanao and Visayas.

Loans and Borrowings increased by 37% from ₱ 5.073 billion as of December 31, 2011 to ₱ 6.971 billion as of March 31, 2012. This was driven by the increase in inventory and decrease of accounts payable trade alongside the rise in cost of sales which resulted to the increased utilization of trade facilities such as import letters of credit and trust receipts.

Trade and other payables decreased by 75%, from ₱ 2.404 billion as of December 31, 2011 to ₱ 600 million as of March 31, 2012. Trade payables from foreign suppliers were covered by letters of credit and or then booked to trust receipts while products are still in inventory or accounts receivable.

Total Stockholders' Equity increased to ₱ 2.991 billion as of March 31, 2012 from ₱2.863 billion as of December 31, 2011 due the income for the quarter less the cash dividend of ₱ 63.36 million declared during the quarter.

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

Selected Financial Ratios	**Three (3) Months ended, March 31, 2012**	**Twelve months ended, December 31, 2011**
Current Ratio[1]	1.08 : 1	1.09 : 1
Debt to Equity[2]	2.62 : 1	2.68 : 1
Return on Equity[3]	6.51%	19.18%

Return on Assets[4]	1.78%	5.61%
Earnings Per Share[6]	0.36	1.00
Net Book Value Per Share-Common[5]	6.10	5.85

Notes:

1 - Total current assets divided by current liabilities

2 - Total liabilities divided by tangible net worth

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

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

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

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

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

Material Changes to the Group's Balance Sheet as of March 31, 2012 compared to December 31, 2011 (Increase/decrease of 5% or more)

38% decrease in Cash and Cash Equivalents
As a result of utilization of cash collection for payment of various liabilities

19% increase in Trade and other receivables
Primarily due to further increase in sales.

10% increase in Due from related parties
Various charges billed during the year.

15% increase on restricted deposits
Provision for incoming liabilities and interest income earned on restricted deposits.

100% decrease in instalment contract receivable-non current
Account becomes current

14% decrease in other non-current assets
Utilization of some of these assets to operations

48% increase in Loans and Borrowings
Increase in utilization of trade lines (LC/TR) to finance inventory purchases.

75% decrease in Trade and other payables
Trade Payable to foreign suppliers financed by trade lines (LC/TR)

19% increase in non-current assets
This is the result of increasing security deposits or cash bond posted by dealers and customers to secure Parent Company receivable.

Material changes to the Group's Income Statement as of March 31, 2012 compared to March 31, 2011 (Increase/decrease of 5% or more)

35% increase in Sale of petroleum products
Principally due to higher sales volume and higher selling prices compared to the same period of 2011.

37% increase in cost of sales
Primarily due to increase sales in petroleum product plus the effect of higher average costs compared to last year.

30% increase in selling and administrative expenses
The increase arose from the ongoing network and storage expansion activities, increase in trade area coverage, and higher sales volume of activity. Volume increased by 38% for this

quarter period compared to the same period of last year due to wider market coverage and additional institutional accounts.

16% increase in Finance Costs (net)
Due to interest on the instalment payable, bank term loan and TRs availed for the increasing purchases.

3367% increase in other income/Costs
Due to income on inventory and various other income

39% increase in provision for income taxes
Increase in provisioning for portion of expired income tax holiday.

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

PART II – OTHER INFORMATION

1. The Parent Company held its annual stockholders' meeting last March 08, 2012 at the Marco Polo Hotel, Davao City, Philippines.

2. Stock Dividend declared by the Board of Directors was approved by the Stockholders during the March 08, 2012 Annual Stockholders' meeting. This entitles all stockholders of record as of March 28, 2012 and shall be distributable on April 26, 2012.

3. As of March 31, 2011, there are no known trends or demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result, in increasing or decreasing the Group's liquidity in any material way. The Group does not anticipate having any cash flow or liquidity issues. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

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

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

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

SIGNATURES

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

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

By:

DENNIS A. UY
President and Chief Executive Officer

JOSEPH JOHN L. ONG
Chief Finance Officer

ANNEX "B"

Republic of the Philippines}
City of ~~TAGUIG CITY~~ } S.S.

UNDERTAKING

I, **JOSEPH JOHN L. ONG**, of legal age, Filipino, married and with postal office address located at 25th Flr, Fort Legend Towers, 3rd Ave., Cor. 31st St., Fort Bonifacio, Global City, Taguig, after having been sworn to in accordance with law, hereby depose and say that:

1. I am the incumbent Chief Finance Officer of PHOENIX Petroleum Philippines, Inc. (the "Company") ;

2. Currently, the Company is in the process of completing its Financial Statements for the 2nd quarter of 2012. Thus, Financial Statements for 2nd quarter of this year shall be available on or before August 8, 2012 and before the Special Stockholders'Meeting of the Company on September 6, 2012;

3. In behalf of the Company, I hereby undertake to submit the Company's Financial Statements for the 2nd Quarter of this year as soon as the data is available and before the scheduled Special Stockholders' Meeting;

4. I am executing this Undertaking to attest the truth of the foregoing statement and for purpose of apprising the proper authorities.

IN WITNESS WHEREOF, I have hereunto set my hand this 25th day of July 2012 in Taguig City, Philippines.

JOSEPH JOHN L. ONG
Affiant

SUBSCRIBED AND SWORN to before me this 25th day of July 2012 in Taguig City, Philippines with affiant exhibiting to me his competent evidence of identity, Drivers' License No. N11-78-016720 and further attests that he has understood the foregoing allegations and the same is true and correct.

ALBERT CHUA L. TAW
Notary Public until 31 Dec. 2013
IBP LMR No. 05050; Roll No. 44024
Suite 1002 Fort Legend Towers
3rd Avenue cor. 31st Street
Bonifacio Global City, Taguig City
PTR NO. MLA 0363914
MANILA 05 JAN. 2012

Doc. No. 399
Page No. 81
Book No. I
Series of 2012

Punongbayan & Araullo

Member firm within Grant Thornton International Ltd

ANNEX "C"

Consolidated Financial Statements and Independent Auditors' Report

Chelsea Shipping Corp. and Subsidiaries

December 31, 2011, 2010 and 2009

Punongbayan & Araullo

Report of Independent Auditors

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Philippines

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F +63 2 886 5506; +63 2 886 5507
www.punongbayan-araullo.com

The Board of Directors
Chelsea Shipping Corp. and Subsidiaries
(A Wholly Owned Subsidiary of
Udenna Management & Resources Corp.)
Stella Hizon Reyes Road
Barrio Pampanga, Davao City

We have audited the accompanying consolidated financial statements of Chelsea Shipping Corp. and subsidiaries (together hereinafter referred to as the Group), which comprise the consolidated statements of financial position as at December 31, 2011, 2010 and 2009, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and 2010 and notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 of 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 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 involves 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 reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2011, 2010 and 2009, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2011 and 2010 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 3174908, January 2, 2012, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-1 (until Aug. 25, 2013)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-22-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

February 27, 2012

CHELSEA SHIPPING CORP. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2011	2010 (As Restated - see Note 17)	2009 (As Restated - see Note 17)
A S S E T S				
CURRENT ASSETS				
Cash	4	**P 37,666,308**	P 10,415,878	P 53,055,617
Trade and other receivables - net	5	**79,690,983**	82,288,576	80,335,676
Advances to related parties	16	**16,446,598**	5,258,619	59,317,865
Other current assets	6	**38,947,006**	32,607,914	82,731,208
Total Current Assets		**172,750,895**	130,570,987	275,440,366
NON-CURRENT ASSETS				
Property and equipment - net	7	**2,168,841,927**	1,370,786,379	1,431,668,663
Goodwill	18	**74,294,814**	74,294,814	74,294,814
Deferred tax assets - net	15	**7,789,131**	9,739,711	-
Other non-current assets - net	8	**53,340,391**	39,812,399	61,632,551
Total Non-current Assets		**2,304,266,263**	1,494,633,303	1,567,596,028
TOTAL ASSETS		**P 2,477,017,158**	P 1,625,204,290	P 1,843,036,394
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade and other payables	9	**P 581,822,300**	P 351,350,776	P 242,445,803
Interest-bearing loans	10	**259,005,011**	254,184,087	301,559,923
Advances from related parties	16	**187,077,904**	97,009,923	46,574,409
Advances from customers	2, 16	**117,961,853**	2,049,957	49,419,699
Income tax payable		**-**	141,019	-
Total Current Liabilities		**1,145,867,068**	704,735,762	639,999,834
NON-CURRENT LIABILITIES				
Interest-bearing loans	10	**545,130,311**	352,987,400	528,404,716
Advances from related parties	16	**24,102,695**	91,167,021	-
Retirement benefit obligation	13	**6,869,324**	6,508,420	4,645,391
Deferred tax liabilities - net	15	**-**	-	8,169,202
Total Non-current Liabilities		**576,102,330**	450,662,841	541,219,309
Total Liabilities		**1,721,969,397**	1,155,398,603	1,181,219,143
EQUITY	17			
Capital stock		**400,000,000**	400,000,000	348,590,400
Equity advances		**231,250,000**	-	-
Deposit for future stock subscriptions		**-**	-	280,222,600
Retained earnings		**123,797,761**	69,805,687	33,004,251
Total Equity		**755,047,761**	469,805,687	661,817,251
TOTAL LIABILITIES AND EQUITY		**P 2,477,017,158**	P 1,625,204,290	P 1,843,036,394

See Notes to Consolidated Financial Statements.

CHELSEA SHIPPING CORP. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2011	2010 (As Restated - see Note 17)
REVENUES			
Charter fees	16	**P 526,376,319**	P 587,390,461
Standby charges	16	**16,131,125**	21,140,355
Bunkering	2	**816,317**	4,244,147
Others		**1,268,201**	5,634,305
		544,591,962	618,409,268
COSTS OF SALES AND SERVICES	11	**386,368,304**	400,176,681
GROSS PROFIT		**158,223,658**	218,232,587
OTHER OPERATING EXPENSES	12	**103,625,489**	113,184,810
OPERATING PROFIT		**54,598,169**	105,047,777
OTHER INCOME (CHARGES)			
Finance costs - net	14	**(44,341,262)**	(81,660,637)
Gain on sale of property and equipment - net	7	**43,457,998**	3,978,504
Miscellaneous income (expense) - net	14	**7,091,474**	(3,161,680)
		6,208,210	(80,843,813)
PROFIT BEFORE TAX		**60,806,379**	24,203,964
TAX INCOME (EXPENSE)	15	**(6,814,305)**	12,597,472
NET PROFIT		**53,992,074**	36,801,436
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME		**P 53,992,074**	P 36,801,436

See Notes to Consolidated Financial Statements.

CHELSEA SHIPPING CORP. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in Philippine Pesos)

	Note	2011	2010 (As Restated - see Note 17)
CAPITAL STOCK	17		
Balance at beginning of year		**P 400,000,000**	P 348,590,400
Additions		-	51,409,600
Balance at end of year		**400,000,000**	400,000,000
EQUITY ADVANCES	17	**231,250,000**	-
DEPOSIT FOR FUTURE STOCK SUBSCRIPTIONS	17		
Balance at beginning of year		-	280,222,600
Application of deposit for future stock subscriptions		-	(51,409,600)
Cancellation of deposit for future stock subscriptions		-	(228,813,000)
Balance at end of year		-	-
RETAINED EARNINGS	17		
Balance at beginning of year			
As previously reported		**41,449,445**	28,554,627
Prior period adjustments		**28,356,242**	4,449,624
As restated		**69,805,687**	33,004,251
Net profit		**53,992,074**	36,801,436
Balance at end of year		**123,797,761**	69,805,687
TOTAL EQUITY		**P 755,047,761**	P 469,805,687

See Notes to Consolidated Financial Statements.

CHELSEA SHIPPING CORP. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2011	2010 (As Restated - see Note 17)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 60,806,379	P 24,203,964
Adjustments for:			
Depreciation and amortization	12	75,386,094	94,120,472
Interest expense	14	51,322,328	73,500,247
Gain from disposal of property and equipment	7	(43,457,998)	(3,978,504)
Day one gain - net	14	(9,666,422)	-
Interest income	14	(1,225,247)	(492,199)
Unrealized foreign currency gain - net		1,083,094	(44,532)
Recovery from insurance claim	14	-	(15,884,350)
Loss on damaged property	14	-	12,961,683
Loss on contamination	14	-	6,859,438
Operating profit before working capital changes		134,248,228	191,246,219
Decrease (increase) in trade and other receivables		2,597,593	(1,952,900)
Decrease (increase) in advances to related parties		(11,187,979)	54,059,247
Decrease (increase) in other current assets		(10,958,696)	45,509,422
Decrease (increase) in other non-current assets		793,618	(411,733)
Decrease in trade and other payables		(50,824,711)	(724,723)
Increase (decrease) in advances from customers		115,911,896	(47,369,742)
Increase in retirement benefit obligation		360,904	1,863,029
Cash generated from operations		180,940,853	242,218,819
Cash paid for income taxes		(385,141)	(556,551)
Net Cash From Operating Activities		180,555,712	241,662,268
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	7	(643,140,265)	(12,957,417)
Proceeds from sale of property and equipment	7	124,074,999	3,662,162
Additions in drydocking costs	8	(46,736,468)	(11,823,067)
Interest received		1,225,247	492,199
Proceeds from insurance claim on damaged property and equipment	14	-	15,884,350
Net Cash Used in Investing Activities		(564,576,487)	(4,741,773)
Balance forwarded		(P 384,020,775)	P 236,920,495

	Note	2011	2010 (As Restated - see Note 17)
Balance brought forward		(P 384,020,775)	P 236,920,495
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing loans		442,399,840	41,000,000
Equity advances received from UMRC	17	231,250,000	-
Repayments of interest-bearing loans		(246,488,645)	(263,793,152)
Interest paid		(48,557,500)	(69,601,149)
Additions (repayments) from related parties - net		32,670,077	12,789,535
Net Cash From (Used in) Financing Activities		411,273,772	(279,604,766)
Effect of Changes in Foreign Exchange Rate on Cash		(2,567)	44,532
NET INCREASE (DECREASE) IN CASH		27,250,430	(42,639,739)
CASH AT BEGINNING OF YEAR		10,415,878	53,055,617
CASH AT END OF YEAR		P 37,666,308	P 10,415,878

Supplemental Information on Noncash Investing and Financing Activities:

1. In 2011, Chelsea Shipping Corp. (Chelsea) entered into a Memorandum of Agreement (MOA) with a foreign corporation for the importation of one unit of oil tank vessel (MT Chelsea Thelma) in China in the amount of US$19.8 million (see Notes 7.1 and 10.2). The related unpaid balance of the agreed price amounting to $6.34 million (P278.5 million) is included as part of Trade payables under Trade and Other Payables account in the 2011 consolidated statement of financial position (see Note 9).

2 . In 2011, the Parent Company received non-interest bearing advances from certain stockholder which are subject of the subordination agreement of the Parent Company with certain bank (see Note 10.2). Day one gain recognized in 2011 related to such non-current advances, net of current year amortization, amounted to P9.7 million (see Note 16.3).

3. In 2009, the Parent Company, through its BOD, planned to increase its stock capitalization from P500.0 million to P800.0 million. As such, Udenna Management and Resources Corp. (UMRC) made additional deposits for future stock subscriptions amounting to P128.8 million. An additional P100.0 million was also received from a prospective investor. In 2010, however, the Company's BOD retracted such intention and accordingly, the Company reclassified the amounts received from UMRC and prospective investor to Advances from Related Parties and Other Payables accounts for P128.8 million and P100.0 million, respectively (see Notes 9, 16 and 17).

4. In 2010, Bunkers Manila, Inc. (BMI)'s vessel was damaged due to a typhoon. The related net carrying amount of P11.2 million was written-off. Subsequently, BMI sold the vessel as scrap for P1.6 million. Of the total selling price, P1.1 million was applied against the BMI's liability to the buyer (see Note 7).

Other Supplemental Information:

The Other Non-current Assets account includes restricted cash deposits amounting to P10.0 million, P10.8 million, and P10.5 million as of December 31, 2011, 2010 and 2009, respectively (see Note 8).

See Notes to Consolidated Financial Statements.

Approved by : _______________
Date : ___________________

CHELSEA SHIPPING CORP. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION AND STATUS OF OPERATIONS

1.1 Incorporation and Operations of Chelsea Shipping Corp.

Chelsea Shipping Corp. (Chelsea or Parent Company) was incorporated in the Philippines on July 17, 2006 and started commercial operations on January 1, 2007. The Parent Company is engaged in maritime trade through conveying, carrying, loading, transporting, discharging and storing of petroleum products, goods and merchandise of every kind, over waterways in the Philippines.

The Parent Company is a wholly owned subsidiary of Udenna Management & Resources Corp. (UMRC). The Parent Company's ultimate company is Udenna Corporation (Udenna). UMRC is engaged in providing management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises. Udenna, on the other hand, was primarily organized to purchase, acquire, take over and manage all or any part of the rights, assets, business and property; undertake and assume the liabilities of any person, firm, association, partnership, syndicate of corporation; and to engage in the distribution, selling, importation, installation of pollution control devices, units and services, and all other pollution control related products and emission test servicing.

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

1.2 Subsidiaries and their Operations

Chelsea holds 100% direct equity ownership interest in Bunkers Manila, Inc. (BMI), Michael, Inc. (MI), and PNX – Chelsea Shipping Corp. (PNX – Chelsea), which are all incorporated in the Philippines.

BMI was registered with SEC on March 7, 2000 to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines. Aside from international bunkering, BMI also ventures into hauling of marine fuel and petroleum products for major oil companies. The registered office of BMI, which is also its principal place of business, is located at 5th Floor, Vicars Building, Visayas Avenue, Quezon City.

MI, which was registered with SEC on December 26, 1957 and whose corporate life was approved to be extended for another 50 years by SEC on May 6, 2008, is engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule. MI is also engaged in the trading of fuel oil. The registered office of MI, which is also its principal place of business, is located at 12 Dagohoy Street, San Antonio Village, Banilad, Cebu City.

PNX – Chelsea was incorporated on February 2, 2011 and is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description. As of December 31, 2011, PNX - Chelsea has not yet started commercial operations. The registered address of PNX – Chelsea, which is also its principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

Both BMI and MI became wholly owned subsidiaries of Chelsea when the former stockholders of the subsidiaries entered into a Share Purchase Agreement (SPA) dated January 31, 2008 and August 31, 2008, respectively, for the sale and purchase of the subsidiaries' total outstanding capital stock (see Note 18). As part of the SPA, the subsidiaries eliminated the balances of certain assets and liabilities account as of the date of agreement against their respective advances from related parties since the parties agreed that the Parent Company will absorb any gains or losses on net assets which the subsidiaries will incur in relation to the buy-out.

1.3 Approval of Consolidated Financial Statements

The consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to herein as the Group) for the year ended December 31, 2011 (including comparatives for the years ended December 31, 2010 and 2009) were authorized for issue by the Group's President on February 27, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. The 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 (PFRS)

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

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

(b) Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *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 consolidated financial statements, or reclassifies items in the consolidated financial statements.

In 2011, the Group presented two comparative period for consolidated statements of financial position due to the retrospective change in the classification of certain items previously classified as Drydocking Costs under Other Non-current account to Tanker (Vessel) under Property and Equipment account (see Note 17.2).

(c) *Functional and Presentation Currency*

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

Items included in the consolidated financial statements of the Group are measured using the Group's functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

2.2 Adoption of New and Amended PFRS

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

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

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

Discussed below are relevant information about these new and amended standards.

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

(ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements and it does not make advance contributions to a retirement fund; hence, the adoption of the revised standard has no material effect on its consolidated financial statements.

(iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;

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

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

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

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

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

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the consolidated financial statements. The amendment has no impact on the Group's consolidated financial statements because the Group has no other comprehensive income.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. This amendment has no significant effect on the consolidated financial statements since the Group already provides adequate information in its consolidated financial statements in compliance with the disclosure requirements.

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

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

PAS 32 (Amendment)	:	Financial Instruments: Presentation - Classification of Rights Issues
PFRS 1 (Amendment)	:	First-Time Adoption of PFRS – Limited Exemption from PFRS 7 Comparative Disclosures
2010 Annual Improvements		
PAS 21 (Amendment)	:	The Effects of Changes in Foreign Exchange Rates
PAS 28 (Amendment)	:	Investment in Associates
PAS 31 (Amendment)	:	Interests in Joint Ventures
PAS 34 (Amendment)	:	Interim Financial Reporting – Significant Events and Transactions
PFRS 1 (Amendment)	:	First-Time Adoption of PFRS
PFRS 3 (Amendment)	:	Business Combinations
IFRIC 13 (Amendment)	:	Customer Loyalty Programmes - Fair Value Awards Credits

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

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

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of consolidated financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to the transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its consolidated financial statements.

(ii) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects that this will not affect the presentation of items in the consolidated financial statements since the Group has currently no other comprehensive income.

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

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

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

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

Currently, the Group is using the corridor approach and its unrecognized actuarial gains as of December 31, 2011 amounted to P2.1 million which will be retrospectively recognized as gains in other comprehensive income in 2013 (see Note 13.2).

(iv) Consolidation Standards

- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 12, *Disclosure of Interest in Other Entities* (effective from January 1, 2013). This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised), *Separate Financial Statements* (effective from January 1, 2013). This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been standard have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.

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

(v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.

(vi) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39 in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

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

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

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

2.3 Basis of Consolidation

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

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

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

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

The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Parent Company's share of the identifiable net assets acquired is recognized as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss as gain (see also Note 2.4).

2.4 Business Combination

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

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

Negative goodwill, which is the excess of the Parent Company's interest in the net fair value of net identifiable asset acquired over acquisition costs, is charged directly to income.

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

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

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

2.5 Financial Assets

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

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

The Group's financial assets consist of Cash, Trade and Other Receivables, Advances to Related Parties, Bond Deposits (presented as part of Other Current Assets) and Hold-out Deposits and Security Deposits (both presented as part of Other Non-current Assets). These financial assets are classified as loans and receivables.

Cash includes cash on hand and cash in banks, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash accounts with banks are unrestricted and readily available for use in the operations of the Group.

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 end of 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, discounted at the effective interest rate.

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

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

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

2.6 Fuel Inventory

Fuel inventory, presented as part of the Other Current Assets, is carried at the lower of cost or net realizable value. The net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost to market and distribute. The Group uses the first-in first-out method in costing fuel products.

2.7 Property and Equipment

Property and equipment are stated at acquisition cost or construction 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, except for costs related to periodic drydocking which is performed every two years on the vessel (see Note 2.8). When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses, if any, 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:

Tanker (vessel)	30 years
Transportation equipment	5 years
Furniture, fixtures and equipment	2 to 5 years

Leasehold improvements are amortized over the lease period or useful lives of the assets whichever is shorter.

Construction-in-progress (CIP) represents vessels under construction and on-going major repair works and is stated at cost. 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 in the year the item is derecognized.

2.8 Drydocking Costs

Drydocking costs are considered major repairs that preserve the life of the vessel. The costs associated with drydocking are amortized over the expected period of benefit which is 24 months based on industry practice or until the next scheduled drydocking occurs, whichever is earlier. When the next scheduled drydocking occurs, any remaining unamortized balance of the deferred cost from the previous drydocking is charged to profit or loss for the period.

Amortization of drydocking costs starts only when the process has been completed and the related vessel is ready for use.

The carrying amount of drydocking costs, presented as part of the Other Non-current Asset in the statement of financial position, is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.15).

The carrying amount of drydocking costs is derecognized upon derecognition of the related vessel. The computed gain or loss arising on derecognition of the vessel takes into consideration the carrying amount of drydocking costs and is included in the statement of comprehensive income in the year the related vessel is derecognized (see Note 2.7).

2.9 Financial Liabilities

Financial liabilities, which include trade and other payables [except output value-added tax (VAT) payable], interest-bearing loans, and advances from related parties, are recognized when the Group becomes a party to the contractual agreements of the instrument. Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.18). All other interest related charges are recognized as an expense in the consolidated statement of comprehensive income under the caption Finance Costs - net.

Interest-bearing loans are raised for support of the investing activities and working capital requirements of the Group. Finance charges, including direct issue costs, are charged to profit or loss, except for capitalized borrowing costs, on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables and advances from related parties are recognized initially at their fair values and subsequently measured at amortized cost, using the effective interest method for maturities beyond one year, less settlement payments.

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

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

2.10 Advances from Customers

Advances from customers are measured at the amount of cash received from the customers and once the related sales transactions are consummated, these are considered as a reduction from the receivable from the customer.

2.11 Provisions and Contingencies

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

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.12 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 VAT and discounts.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs incurred or to be incurred can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(a) *Charter fees* – Revenue is recognized when the performance of the contractually agreed tasks have been substantially rendered.

(b) *Standby charges* – Revenue is recognized upon failure of the customer to utilize/dispatch the vessel within the allotted lay-time as agreed by the contracting parties.

(c) *Sale of bunker fuel* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

(d) *Rentals* – Revenue from rentals arising from the short-term lease of office space is recognized at agreed rate over the lease term (see Note 2.13).

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

Costs and expenses are recognized in profit or loss upon receipt of goods or utilization of the service or at the date they are incurred. Finance costs, except for borrowing costs attributable to qualifying assets, are reported on an accrual basis (see Note 2.18).

2.13 Leases

The Group accounts for its leases as follows:

(a) *Company as Lessee*

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 profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) *Company as Lessor*

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 short-term operating lease is recognized at agreed rate over the lease term. Lease income from long-term lease is recognized in profit or loss on straight-line basis over the lease term (see Note 2.12).

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 profit or loss.

2.15 Impairment of Non-financial Assets

The Group's goodwill, property and equipment, drydocking costs (shown under Other Non-current Assets account) and other non-financial assets are subject to impairment testing.

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, assets are tested for impairment either individually or at the cash-generating unit level.

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

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

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist 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 Benefit

Post-employment benefits are provided to employees through a defined benefit plan.

A defined benefit plan is a post-employment benefit 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 defined benefit plan covers all regular full-time employees.

The liability recognized in the consolidated statement of financial position for post-employment defined benefit plans is the present value of the defined benefit obligation (DBO) at the end of reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated 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 the consolidated statement of comprehensive income, unless the changes to the pension 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 reporting period. They are included in the Trade and Other Payables account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.17 Related Party Transactions

Related party transactions are transfers 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.

2.18 Borrowing Costs

Borrowing costs are recognized as expense 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.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.19 Income Taxes

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

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is provided, using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the 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 a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

2.20 Equity

Capital stock represents the nominal value of shares that have been issued.

Equity advances from UMRC (measured at consideration received) represent advances which are intended for conversion to capital stock in the future.

Deposit on future stock subscriptions represents the cash considerations received from stockholders as deposit on future subscriptions of the Parent Company's unissued shares.

Retained earnings include all current and prior period results of operations as reported in the profit or loss section of the consolidated statement of comprehensive income.

2.21 Events after the Reporting Period

Any post-year-end event that provides additional information about the Company's position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the 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 Leases

The Group has entered into various lease agreements as a lessee. Critical judgment was exercised by management to distinguish the lease agreements 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) *Capitalization of Borrowing Costs*

The Group determines whether the amount of finance costs qualifies for capitalization as part of the cost of the qualifying asset, or expensed outright. The treatment on the amount of finance costs is determined by assessing whether the asset is a qualifying asset taking into consideration the period of construction to get the asset ready for its intended use. Failure to make the right judgment will result in misstatement of assets and net profit.

(c) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition and disclosures of provisions and contingencies are disclosed in Note 2.11 and relevant disclosures of commitments and contingencies are presented in Note 19.

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) *Useful Lives of Property and Equipment and Drydocking Costs*

The Group estimates the useful lives of property and equipment and drydocking costs based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment and drydocking costs are analyzed in Notes 7 and 8, respectively. Based on management's assessment as at December 31, 2011, 2010 and 2009, there is no change in the estimated useful lives of property and equipment and drydocking costs during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(b) *Allowance for Impairment of Trade and Other Receivables and Advances to Related Parties*

Adequate amount of allowance is made and provided 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 its customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

Impairment loss on Trade and Other Receivables required to be recognized in 2011, 2010 and 2009 amounts to P3.3 million, P6.8 million and nil, respectively (see Note 5). There are no impairment losses required to be recognized for advances to related parties during the years presented based on management's assessment (see Note 16.3).

(c) *Impairment of Non-financial Assets*

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

Management has assessed that no impairment losses are required to be recognized on the Group's non-financial assets in 2011 and 2010.

(d) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The carrying value of deferred tax assets as of December 31, 2011, 2010 and 2009 is disclosed in Note 15.1.

(e) *Post-employment Benefit*

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 13.2 and include, among others, discount rates, and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 13.2.

4. CASH

Cash consists of the following as of December 31:

	2011	2010	2009
Cash in banks	**P 29,151,472**	P 8,294,016	P 50,223,780
Revolving fund	**8,514,836**	2,121,862	2,831,837
	P 37,666,308	P 10,415,878	P 53,055,617

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates ranging from 0.03% to 3.00% per annum. Interest income earned amounted to P1.2 million and P0.5 million in 2011 and 2010, respectively, and is presented as part of Finance Costs - net (see Note 14.2).

5. TRADE AND OTHER RECEIVABLES

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

	Notes		2011		2010		2009
Trade:							
Third parties		P	**51,373,854**	P	45,974,324	P	20,783,691
Related parties	16.1, 16.2		**17,845,924**		6,247,137		38,439,122
			69,219,778		52,221,461		59,222,813
Advances to officers and employees			**5,799,359**		4,323,818		2,318,094
Others:							
Third parties			**13,679,905**		32,500,009		18,794,769
Related parties	16.5		**1,090,516**		-		-
			14,770,421		32,500,009		18,794,769
Allowance for impairment loss		**(**	**10,098,575)**	(	6,756,712)		-
		P	**79,690,983**	P	82,288,576	P	80,335,676

Other receivables include receivable amounting to P12.3 million, P12.6 million and P13.1 million as of December 31, 2011, 2010 and 2009, respectively, from a certain third party which represent the reimbursable costs incurred by the Parent Company in relation to their time charter agreement.

Certain Trade Receivables of the Parent Company amounting to P17.0 million is used as collateral to a loan (see Note 10.4). There is no similar transaction in 2010 and 2009.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. In 2011 and 2010, certain receivables were found to be impaired; hence, adequate amount of allowance for impairment have been recorded. The impairment loss amounting to P3.3 million and P6.8 million in 2011 and 2010 is presented as part of Finance Costs - net under Other Income (Charges) account in the consolidated statements of comprehensive income (see Note 14.2).

A reconciliation of the allowance for impairment at the beginning and end of 2011, 2010 and 2009 is shown below.

	Note		2011		2010		2009
Balance at beginning of year		**P**	**6,756,712**	P	-	P	-
Impairment loss	14.2		**3,341,863**		6,756,712		-
Balance at end of year		**P**	**10,098,575**	P	6,756,712	P	-

Trade and other receivables do not bear any interest. All receivables are subject to credit risk exposure (see Note 21.3).

The carrying amounts of these trade and other receivables are a reasonable approximation of their fair values due to their short-term duration.

Approved by : _______________
Date : ___________________

6. OTHER CURRENT ASSETS

The breakdown of this account as of December 31 is as follows:

	Notes	2011	2010	2009
Creditable withholding tax		**P 17,545,736**	P 13,119,290	P 8,430,413
Advances to suppliers - net		**11,499,666**	6,078,787	27,986,329
Prepaid expenses		**5,494,853**	3,713,162	2,710,557
Others	16.1, 19.1	**4,406,751**	9,696,675	43,603,909
		P 38,947,006	P 32,607,914	P 82,731,208

In 2011, the Group provided allowance for impairment on certain advances to suppliers amounting to P0.2 million as management considers the realizability of such advances to be remote. Related impairment loss is recognized as part of Finance Costs - net under Other Income (Charges) account in the 2011 statement of comprehensive income (see Note 14.2).

7. PROPERTY AND EQUIPMENT

The gross carrying amounts and the accumulated depreciation and amortization of property and equipment at the beginning and end of 2011, 2010 and 2009 are shown below.

	Tanker (Vessel) (As Restated - see Note 17.2)	Transportation Equipment	Leasehold Improvement	Furniture, Fixtures and Equipment	CIP	Total (As Restated - see Note 17.2)
December 31, 2011						
Cost	P 1,443,104,896	P 18,045,567	P 15,977,590	P 19,076,898	P 902,583,842	P 2,398,788,793
Accumulated depreciation and amortization	(195,386,481)	(12,939,849)	(7,644,248)	(13,976,288)	-	(229,946,866)
Net carrying amount	**P 1,247,718,415**	**P 5,105,718**	**P 8,333,342**	**P 5,100,610**	**P 902,583,842**	**P 2,168,841,927**
December 31, 2010						
Cost	P 1,508,860,590	P 18,045,567	P 13,258,634	P 17,051,881	P 1,487,939	P 1,558,704,611
Accumulated depreciation and amortization	(162,833,471)	(9,498,936)	(4,511,524)	(11,074,301)	-	(187,918,232)
Net carrying amount	P 1,346,027,119	P 8,546,631	P 8,747,110	P 5,977,580	P 1,487,939	P 1,370,786,379
December 31, 2009						
Cost	P 1,461,300,944	P 20,062,536	P 13,987,889	P 6,716,614	P 39,630,475	P 1,541,698,458
Accumulated depreciation and amortization	(98,304,796)	(8,008,025)	(737,650)	(2,979,324)	-	(110,029,795)
Net carrying amount	P 1,362,996,148	P 12,054,511	P 13,250,239	P 3,737,290	P 39,630,475	P 1,431,668,663
January 1, 2009						
Cost	P 509,606,144	P 21,260,396	P 2,526,357	P 6,747,652	P 301,042,702	P 841,183,251
Accumulated depreciation and amortization	(89,347,044)	(4,939,812)	(101,773)	(1,565,437)	-	(95,954,066)
Net carrying amount	P 420,259,100	P 16,320,584	P 2,424,584	P 5,182,215	P 301,042,702	P 745,229,185

Approved by : _______________
Date : ___________________

A reconciliation of the carrying amounts at the beginning and end of 2011, 2010 and 2009 of property and equipment is shown below.

	Tanker (Vessel) (As Restated - see Note 17.2)	Transportation Equipment	Leasehold Improvement	Furniture, Fixtures and Equipment	CIP	Total (As Restated - see Note 17.2)
Balance at January 1, 2011, net of accumulated depreciation and amortization	P 1,346,027,119	P 8,546,631	P 8,747,110	P 5,977,580	P 1,487,939	P 1,370,786,379
Additions	14,731,075	-	2,203,262	2,125,606	902,583,842	921,643,785
Reclassification	1,487,939	-	-	-	(1,487,939)	-
Disposal	(65,399,962)	-	-	-	-	(65,399,962)
Depreciation and amortization charges for the year	(49,127,756)	(3,440,913)	(2,617,030)	(3,002,576)	-	(58,188,275)
Balance at December 31, 2010, net of accumulated depreciation and amortization	**P 1,247,718,415**	**P 5,105,718**	**P 8,333,342**	**P 5,100,610**	**P 902,583,842**	**P 2,168,841,927**
Balance at January 1, 2010, net of accumulated depreciation and amortization	P 1,362,996,148	P 12,054,511	P 13,250,239	P 3,737,290	P 39,630,475	P 1,431,668,663
Additions	6,451,070	-	-	5,018,408	1,487,939	12,957,417
Reclassification	39,630,475	-	-	-	(39,630,475)	-
Disposal	(11,868,327)	-	-	-	-	(11,868,327)
Write-off	-	-	(1,905,854)	-	-	(1,905,854)
Depreciation and amortization charges for the year	(51,182,247)	(3,507,880)	(2,597,275)	(2,778,118)	-	(60,065,520)
Balance at December 31, 2010, net of accumulated depreciation and amortization	P 1,346,027,119	P 8,546,631	P 8,747,110	P 5,977,580	P 1,487,939	P 1,370,786,379
Balance at January 1, 2009, net of accumulated depreciation and amortization	P 420,259,100	P 16,320,584	P 2,424,584	P 5,182,215	P 301,042,702	P 745,229,185
Additions	61,652,439	5,394,179	12,638,130	861,481	615,372,570	695,918,799
Reclassification (see Note 8)	910,632,845	-	-	-	(876,784,797)	33,848,048
Disposals	-	(5,186,344)	(1,102,062)	(512,300)	-	(6,800,705)
Depreciation and amortization charges for the year	(29,548,236)	(4,473,908)	(710,413)	(1,794,107)	-	(36,526,664)
Balance at December 31, 2009, net of accumulated depreciation and amortization	P 1,362,996,148	P 12,054,511	P 13,250,239	P 3,737,290	P 39,630,475	P 1,431,668,663

Certain tankers (vessels) were used as collaterals for interest-bearing loans obtained by the Group from various local commercial banks (see Notes 10.1, 10.2, 10.3 and 10.4).

As of December 31, 2011, 2010 and 2009, respectively, certain transportation equipment with carrying amount of P2.6 million, P6.5 million and P11.5 million, respectively, were used as collateral for mortgage loans with a local bank (see Note 10.5).

The amount of depreciation and amortization is allocated as follows:

	Notes	2011	2010 (As Restated - see Note 17.2)
Costs of sales and services	11	**P 50,560,235**	P 51,211,084
Other operating expenses		**7,628,040**	8,854,436
	12	**P 58,188,275**	P 60,065,520

7.1 Acquisition of Vessels

(a) MT Chelsea Thelma (MT Thelma)

On April 26, 2011, the Parent Company entered into a Memorandum of Agreement (MOA) with a foreign corporation for the importation of one unit of oil tank vessel (MT Thelma) from China for US$19.8 million (see Note 10.2). As of December 31, 2011, the vessel, which is already completed, is still not turned-over and delivered to the Company. Since the vessel is not yet ready for Parent Company's use as of December 31, 2011, the contract price of the vessel, other incidental costs of the transaction and costs incurred for the major improvements made to the vessel totaling P874.9 million were recognized as CIP. The unpaid balance of the contact price amounting to $6.34 million (P278.5 million) is included as part of Trade payables under Trade and Other Payables account in the 2011 consolidated statement of financial position (see Note 9).

(b) MT Chelsea Cherylyn (MT Cherylyn)

On September 12, 2007, the Parent Company entered into a MOA with a foreign corporation for the construction of one unit oil tank vessel (MT Cherylyn) in China for US$15.0 million. The vessel was completed and launched in July 2009. Total cost incurred during construction of MT Cherylyn amounted to P877.5 million inclusive of capitalized borrowing costs totaling P32.0 million representing interest charges directly attributable to the construction of the vessel (see Note 10.3).

7.2 Double Hull Conversion of Tanker (Vessels)

On December 14, 2010, MARINA issued Circular 2010-01, mandating all owners and operators of oil tankers and tanker-barges with 600 deadweight tonnage and above must be double hulled within twelve months from the effectivity of the Circular. However, oil tankers carrying petroleum black products shall continue to be covered under Circular 2007-01 regardless of size.

As of December 31, 2011, MT Chelsea Resolute is undergoing double hulling. Related costs incurred amounting to P20.0 million were recognized as part of CIP.

7.3 Disposal of Tanker (Vessel)

In 2011, three of MI's vessels were sold for P2.2 million, while in 2010, two of MI's vessels were sold for P3.0 million. Also, in 2011, the Parent Company disposed one vessel for P121.9 million. The related gain from these sales transactions, taking into consideration the carrying value and the related drydocking costs, amounted to P43.5 million and P4.0 million in 2011 and 2010, respectively, which is presented under Other Income (Charges) account in the consolidated statements of comprehensive income.

In 2010, one of BMI's vessels was damaged due to a typhoon. The related insurance claims amounted to P15.9 million and is presented as part of Miscellaneous Income (Expense) - net in the 2010 consolidated statement of comprehensive income (see Note 14.1). BMI wrote off the net carrying value of the asset and subsequently sold it as scrap. The loss on write-off amounting to P13.0 million is presented as part of Miscellaneous Income (Expense) - net in the 2010 consolidated statement of comprehensive income (see Note 14.1). The proceeds from the sale amounted to P1.6 million and is presented as part of gain on sale of property and equipment under Other Income (Charges) account in the 2010 consolidated statement of comprehensive income. Portion of the proceeds, amounting to P1.1 million was offset against the liability of BMI to the buyer.

8. OTHER NON-CURRENT ASSETS

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

	Notes	2011	2010 (As Restated - see Note 17.2)	2009 (As Restated see Note 17.2)
Drydocking costs		**P 40,717,393**	P 26,395,784	P 48,627,669
Hold – out deposits	10.3	**10,000,000**	10,793,615	10,500,000
Security deposits	19.2	**2,622,998**	2,623,000	2,504,882
		P 53,340,391	P 39,812,399	P 61,632,551

Management assessed that the carrying amounts of hold-out and security deposits are a reasonable approximation of the respective fair values.

Presented below is a reconciliation of drydocking costs.

	Notes	2011	2010 (As Restated - see Note 17.2)	2009 (As Restated see Note 17.2)
Balance at beginning of year		**P 26,395,784**	P 48,627,669	P 56,837,533
Additions		**46,736,468**	11,823,067	43,961,025
Reclassification	7	**-**	-	(33,848,048)
Disposal	7.3	**(15,217,040)**	-	-
Amortization during the year	11, 12	**(17,197,819)**	(34,054,952)	(18,322,841)
		P 40,717,393	P 26,395,784	P 48,627,669

In 2009, the Group reclassified drydocking costs amounting to P33.8 million to property and equipment representing capitalizable costs of certain vessels (see Note 7).

9. TRADE AND OTHER PAYABLES

The breakdown of this account as of December 31 is as follows:

	Notes	**2011**	2010	2009
Trade:				
Third	7.1	**P 386,825,195**	P 94,480,822	P 120,299,622
Related parties	16.1, 16.2	**41,979,149**	84,749,416	48,501,923
		428,804,344	179,230,238	168,801,545
Accrued expenses		**19,460,701**	37,140,153	30,589,646
Others:				
Third	18.2, 19.3	**33,557,255**	34,980,385	43,054,612
Prospective investor	17.1	**100,000,000**	100,000,000	-
		133,557,255	134,980,385	43,054,612
		P 581,822,300	P 351,350,776	P 242,445,803

The 2011 balance of Trade Payables includes the P278.5 million unpaid balance of the agreed price for the purchase of MT Thelma from a foreign corporation (see Note 7.1).

In 2010, the Parent Company's Board of Directors (BOD) retracted its plan to file for an increase of the Parent Company's authorized capital stock. Consequently, the P100.0 million received from a prospective investor was reclassified from Deposit on Future Stock Subscriptions to Other Payables (see Note 17.1).

Other payables also include the claim of MI's customer for alleged contamination of its cargo. Related loss amounting to P6.9 million is presented as part of Miscellaneous Income (Expense) – net in the 2010 consolidated statement of comprehensive income (see Note 14.1). In addition, Other Payables include the balance of the purchase price for one of the Company's subsidiaries amounting to P2.2 million, P7.5 million and P21.3 million as of December 31, 2011, 2010 and 2009, respectively (see Note 18.2).

Accrued expenses comprise amounts to be paid in relation to charter hire cost, repairs and maintenance and interest expense arising from loans.

The carrying amounts of trade and other payables recognized in the consolidated statements of financial position are a reasonable approximation of their fair values due to their short-term duration.

10. INTEREST-BEARING LOANS

The details of short-term and long-term interest-bearing loans as of December 31 are as follows:

	Note	**2011**	2010	2009
Current:				
Term loans	10.2, 10.3 10.4	**P 194,983,159**	P 124,526,316	P 124,526,316
Bank loans	10.1	**63,871,610**	127,089,685	169,487,237
Mortgage loans	10.5	**150,242**	2,568,086	7,546,370
		259,005,011	254,184,087	301,559,923
Non-current:				
Term loans	10.2, 10.3	**529,530,311**	311,315,789	435,842,105
Bank Loans	10.1	**15,600,000**	41,671,611	92,562,611
		545,130,311	352,987,400	528,404,716
		P 804,135,322	P 607,171,487	P 829,964,639

These loans were obtained by the Group from financial institutions to finance the acquisition of certain vessels and transportation equipment and for its working capital requirements.

Interest incurred on these loans amounted to P51.0 million and P72.4 million in 2011 and 2010, respectively, and are shown as part of Finance Costs - net in the consolidated statements of comprehensive income (see Note 14.2).

10.1 Bank Loans

The bank loans represent secured loans from local commercial banks for working capital purposes. The loans bear annual interest rates ranging from 9.8% to 14.0% in 2011, 2010 and 2009 subject to monthly repricing. These loans are secured by certain vessels owned by the Group with net book value amounting to P139.0 million, P421.6 million and P411.2 million as of December 31, 2011, 2010 and 2009, respectively (see Note 7) and by certain stockholders (see Note 16.5).

10.2 Omnibus Loan and Security Agreement (OLSA) with BDO Unibank, Inc. (BDO)

On April 26, 2011, the Parent Company entered into a MOA with China Shipbuilding & Exports Corporation for the importation of one unit oil tank (MT Thelma) in the amount of US$19.8 million [see Note 7.1(a)].

In connection with the MOA, the Parent Company entered into an OLSA amounting to US$14.5 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. The loan is payable into twenty-seven consecutive equal quarterly principal installments starting on August 2012. The loan is subject to interest computed at one-year LIBOR plus applicable margin of 3.5% per annum.

In connection with the OLSA advances made by certain shareholders and UMRC are subordinated to the loan. Based on said agreement, the obligation of the Parent Company to pay the shareholders' advances shall be fully subordinated, junior and subject in right of payment to the prior indefeasible payment and performance in full of the OLSA. The Parent Company affirms that any and all obligations of the Parent Company relative to the loan shall be settled first before any of its financial obligations to such shareholders' advances are paid. Accordingly, portion of the advances from these related parties are treated as non-current liabilities (see Note 16.3).

The loan is secured by a chattel mortgage on one of the Company's vessel with book value of P100.3 million as of December 31, 2011 (see Note 7) and a refund guaranty issued by the Bank of China for $8.16 million until MT Thelma is delivered. The loan will be further secured by a chattel mortgage of MT Thelma upon its delivery and registration with the MARINA. The carrying amount of MT Thelma, presented as part of CIP, amounted to P874.9 million as of December 31, 2011.

Related debt issuance costs amounted to P8.2 million of which P0.5 million was amortized during 2011 using effective interest rate of 5.02%. Amortized debt issuance costs was recognized as part of the Finance Costs-net in the 2011 consolidated statement of comprehensive income (see Note 14.2). Unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

OLSA requires the Parent Company to maintain debt to equity ratio of not more than 1.5 : 1 and debt coverage ratio of at least 1.20 from 2011 to 2014 and 2.5 from 2015 to 2018. The Parent Company filed a waiver with BDO for the debt covenant ratios. No response was received from BDO. However, management believed that its application for the waiver will be approved by BDO. Accordingly, the Parent Company still classified the liability as non-current.

10.3 Term Loan Agreement (TLA) with Development Bank of the Philippines (DBP)

On September 12, 2007, the Parent Company entered into a MOA with China Shipbuilding & Exports Corporation for the construction of one unit oil tank (vessel) in the amount of US$15.0 million [see Note 7.1(b)].

In connection with the MOA, the Parent Company entered into a TLA amounting to US$13.0 million with DBP, the proceeds of which shall be exclusively used to finance the construction of the vessel. In February 2008 and May 2009, DBP granted the loan amounting to US$3.9 million (P159.0 million) and US$9.1 million (P432.5 million), respectively. The loan is payable over five years in equal quarterly principal installments, with one quarter grace period on principal, commencing November 2009 and was subject to 10.5% interest rate per annum. In 2010, DBP approved the reduction of interest rate from 10.5% to 9% subject to annual review effective September 14, 2010. The agreement also stipulated for interest bearing hold-out fund amounting to at least P10.0 million which is shown as Hold-out Deposits under Other Non-current Assets account in the consolidated statements of financial position (see Note 8). Hold-out deposit earns interest at rate of 2.5% per annum.

In connection with the TLA, the Parent Company, UMRC and certain stockholders of the Parent Company entered into a Subordination Agreement (SA) on November 19, 2007 under which the parties agreed that any principal and interest on the advances made by UMRC and such certain stockholders to the Parent Company are and at all times subordinate in the preference of payment until full settlement of the obligations of the Parent Company to DBP under the TLA in 2014. Accordingly, Advances from UMRC and stockholders amounting to P78.4 million and P12.7 million, respectively, as of December 31, 2010 is presented as non-current liabilities in the 2010 consolidated statement of financial position (see Note 16.3).

Other than the subordination agreement, the TLA does not require any loan covenant.

The loan is secured by a chattel mortgage on certain vessel of the Company with net book value amounting to P803.8 million as of December 31, 2011 and of certain vessels with total net book value totaling P921.0 million and P947.3 million as of December 31, 2010 and 2009, respectively (see Note 7). The loan is also guaranteed by certain stockholders of the Group (see Note 16.5).

10.4 Loan Agreement with Robinsons Bank Corporation (RBC)

On November 23, 2011, Parent Company entered into a loan agreement with RBC amounting to P65.0 million to partly finance the double hulling and drydocking of certain vessel of the Company (see Notes 7). The loan is subject to annual interest of 8.0% and is payable in twenty-four equal monthly installments.

The loan is secured by a chattel mortgage on one of the vessels of Parent Company with net book value amounting to P84.5 million (see Note 7) and receivables of the Company from certain customer of Parent Company (see Note 5). The loan is also guaranteed by certain stockholders of the Parent Company (see Note 16.5).

The loan agreement requires the Parent Company to maintain debt to equity ratio of not more than 3 : 1 and debt coverage ratio of at least 1.20. The Parent Company filed a waiver with RBC for the debt covenant ratios. No response was received from RBC. However, management believed that its application for the waiver will be approved by RBC. Accordingly, the Company still classified the liability as non-current.

10.5 Mortgage Loans

Mortgage loans pertain to loans from various local banks to finance the acquisition of certain transportation equipment. These loans bear interest rates ranging from 4.0% to 10.9% in 2011, 2010 and 2009. These loans are payable in 36 monthly installments and are secured by a chattel mortgage on the Parent Company's transportation equipment (see Note 7).

11. COSTS OF SALES AND SERVICES

The details of this account for the years ended December 31 are shown below (see Note 12).

	Notes	2011	2010 (As Restated - see Note 17.2)
Bunkering	16.1	**P 97,707,682**	P 115,500,245
Depreciation and amortization	7, 8	**67,758,054**	85,266,036
Port expenses		**58,067,686**	58,021,279
Charter hire fees		**52,127,126**	31,765,499
Salaries and employee benefits		**36,328,045**	37,395,338
Insurance		**22,591,612**	29,264,713
Professional fees		**19,219,086**	16,099,094
Repairs and maintenance		**18,785,445**	14,535,959
Fuel and oil		**9,229,624**	11,314,348
Taxes and licenses		**3,185,423**	-
Others		**1,368,521**	1,014,170
		P 386,368,304	P 400,176,681

Cost of sales pertains to cost of fuel sold to various shipping and other companies.

12. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are presented below.

	Notes	2011	2010 (As Restated - see Note 17.2)
Bunkering		**P 97,707,682**	P 105,187,234
Salaries and employee benefits	13.1	**76,271,113**	84,893,758
Depreciation and amortization	7, 8	**75,386,094**	94,120,472
Port expenses		**58,067,686**	58,021,279
Charter hire fees		**52,127,126**	31,765,499
Insurance		**22,987,776**	30,762,005
Professional fees		**22,792,669**	25,380,404
Repairs and maintenance		**20,181,298**	15,279,288
Taxes and licenses		**11,900,704**	4,046,064
Fuel and oil		**9,229,624**	11,314,348
Handling and processing fee		**8,634,724**	11,501,178
Rental	16.2, 19.2	**8,136,317**	4,933,938
Balance carried forward		**P 463,422,814**	P 487,518,478

	2011	2010 (As Restated - see Note 17.2)
Balance brought forward	**P 463,422,814**	P 487,518,478
Communication, light and water	**3,935,869**	5,159,260
Transportation and travel	**3,408,399**	3,812,797
Membership dues	**1,389,774**	1,366,265
Representation	**1,296,842**	953,405
Office supplies	**863,163**	1,408,810
Others	**15,676,933**	13,142,476
	P 489,993,793	P 513,361,491

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

	Note	**2011**	2010 (As Restated - see Note 17.2)
Costs of sales and services	11	**P 386,368,304**	P 400,176,681
Other operating expenses		**103,625,489**	113,184,810
		P 489,993,793	P 513,361,491

13. SALARIES AND EMPLOYEE BENEFITS

13.1 Salaries and Employee Benefits Expense

Details of salaries and employee benefits are presented below (see Note 12).

	Note	**2011**	2010
Short-term employee benefits		**P 75,214,234**	P 82,773,929
Post-employment benefit	13.2	**1,056,879**	2,119,829
		P 76,271,113	P 84,893,758

13.2 Post-employment Benefit

The Group maintains an unfunded, noncontributory post-employment benefit plan that is being administered by a trustee covering all regular full-time employees.

Actuarial valuations are made at least every two years to update the post-employment benefit expense and the amount of contributions.

The amounts of retirement benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	2011	2010	2009
Present value of the obligation	**P 5,688,200**	P 5,873,204	P 8,470,166
Unrecognized actuarial gain	**2,080,849**	2,809,866	-
Unamortized transitional liability	**(899,725)**	(2,174,650)	(3,824,775)
	P 6,869,324	P 6,508,420	P 4,645,391

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

	2011	2010	2009
Balance at beginning of year	**P 5,873,204**	P 8,470,166	P 7,624,830
Effect of curtailment	**(1,841,700)**	(792,600)	(704,164)
Current service and interest cost	**1,777,179**	1,747,004	1,549,500
Changes in assumptions	**(299,500)**	729,500	-
Actuarial gains	**144,817**	-	-
Experience adjustments	**34,200**	(4,024,066)	-
Benefits paid	**-**	(256,800)	-
Balance at end of year	**P 5,688,200**	P 5,873,204	P 8,470,166

The amounts of post-employment benefits recognized in profit or loss are as follows:

	2011	2010
Current service costs	**P 862,900**	P 918,895
Interest costs	**193,979**	828,109
Amortization of transitional liability	**-**	1,274,925
	P 1,056,879	P 2,119,829

The net curtailment gain recognized in 2011 profit or loss is broken down as follows (see Note 14.1):

Current service costs	**P 350,000**
Interest costs	**370,300**
Curtailment gain	**(2,495,300)**
Amortization of actuarial gain	**(195,900)**
Amortization of transitional liability	**1,274,925**
	(P 695,975)

In determining the retirement benefit obligation, the following actuarial assumptions were used:

	2011	2010	2009
Discount rates	**5.48 and 6.3 %**	16.8%	13.6%
Expected rate of salary increases	**5%**	13.0%	8.0%

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

The Group's post-employment benefit is unfunded as of December 31, 2011, 2010 and 2009. The Group has yet to determine how much will it contribute to the post-employment benefit plan and when to fund it.

14. OTHER INCOME AND OTHER CHARGES

The details of this account follow:

14.1 Miscellaneous Income (Expense) - net

	Notes	**2011**	2010
Rental	16.5	**P 4,973,697**	P -
Net curtailment gain	13.2	**695,975**	-
Scrap scales		**250,621**	-
Recovery from insurance claim	7.3	**-**	15,884,350
Loss on damaged property	7.3	**-**	(12,961,683)
Loss on contamination	19.3	**-**	(6,859,438)
Others		**1,171,181**	775,091
		P 7,091,474	(P 3,161,680)

Other income earned in 2011 includes liabilities from previous years totaling P0.9 million which were derecognized in the current year since management believes that counterparties will no longer demand payment.

14.2 Finance Costs - net

	Notes	**2011**	2010
Interest expense on:			
Term loans	10.2,10.3 10.4	**P 38,403,536**	P 50,501,907
Bank loans	10.1	**11,926,088**	21,618,481
Other payable	18.2	**346,282**	1,108,921
Mortgage loan	10.5	**177,555**	270,938
Debt issue cost	10.2	**468,868**	-
		51,322,329	73,500,247
Impairment loss	5, 6	**3,583,410**	6,756,712
Day one gain - net	16.3	**(9,666,422)**	-
Interest income	4	**(1,225,247)**	(492,199)
Foreign currency losses		**327,192**	1,866,494
Others		**-**	29,383
		P 44,341,262	P 81,660,637

15. TAXES

15.1 Current and Deferred Income Taxes

The components of tax expense (income) as reported in the consolidated statements of comprehensive income are shown below.

	2011	2010
Current tax expense:		
Regular corporate income tax (RCIT) at 30%	**P 1,416,431**	P 2,725,887
Minimum corporate income tax (MCIT) at 2%	**3,203,172**	2,721,479
Final tax at 20% and 7.5%	**244,122**	98,346
	4,863,725	5,545,712
Deferred tax expense (income):		
Origination and reversal of temporary differences	**2,194,852**	(17,908,913)
Recognition of previously unrecognized 2010 temporary differences	**(244,272)**	-
Utilization of previously unrecognized MCIT	**-**	(234,271)
	1,950,580	(18,143,184)
	P 6,814,305	(P 12,597,472)

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense (income) follows:

	2011	2010
Tax on pretax profit at 30%	**P 18,241,914**	P 7,261,190
Adjustment for income subjected to lower tax rate	**(124,880)**	(49,313)
Adjustment for tax effects of:		
Net profit on Board of Investments (BOI) registered activity	**(10,167,833)**	(10,826,899)
Non-taxable income	**(2,899,926)**	-
Non-deductible expenses	**2,009,302**	347,686
Previously unrecognized deferred tax asset	**(244,272)**	-
Utilization of previously unrecognized:		
Net operating loss carry over (NOLCO)	**-**	(2,168,151)
MCIT	**-**	(234,271)
Tax effect of other adjustment	**-**	(7,171,986)
Unrecognized deferred taxes on:		
Allowance for impairment of other receivables	**-**	132,443
Unrealized foreign exchange losses	**-**	111,829
Tax expense (income) reported in the consolidated profit or loss	**P 6,814,305**	(P 12,597,472)

The net deferred tax assets as of December 31, 2011 and 2010 and net deferred tax liabilities as of December 31, 2009 pertains to the following:

	Consolidated Statements of Financial Position			Consolidated Statements of Comprehensive Income	
	2011	2010	2009	**2011**	2010
Deferred tax asset:					
MCIT	**P 5,924,651**	P 2,721,479	P -	**(P 3,203,172)**	(P 2,721,479)
NOLCO	**5,379,699**	10,309,876	-	**4,930,177**	(10,309,876)
Impairment loss	**3,102,036**	1,894,571	-	**(1,207,465)**	(1,894,571)
Retirement benefits	**2,060,800**	1,952,525	1,327,124	**(108,275)**	(625,401)
Loss on contamination	**2,057,831**	2,057,831	-	-	(2,057,831)
Unrealized foreign currency loss - net	**324,929**	-	-	**(338,289)**	-
Accrued rent	**65,991**	-	-	**(65,991)**	-
Unamortized pre-operating expenses for tax purposes	**-**	-	7,229	**-**	7,229
	18,915,937	18,936,282	1,334,353	**6,985**	(17,601,929)
Deferred tax liabilities:					
Capitalized borrowing cost	**(8,862,866)**	(9,183,211)	(9,503,555)	**(320,345)**	(320,344)
Unamortized debt issue costs	**(2,263,940)**	-	-	**2,263,940**	-
Unrealized foreign currency gain - net	**-**	(13,360)	-	-	13,360
	(11,126,806)	(9,196,571)	(9,503,555)	**1,943,595**	(306,984)
Deferred tax expense (income)				**P 1,950,580**	(P 17,908,913)
Net deferred tax asset (liability)	**P 7,789,131**	P 9,739,711	(P 8,169,202)		

The details of the Group's NOLCO and MCIT are as follows:

Year Incurred	Amount	Used/Expired	Balance	Expiry Date
NOLCO				
2011	P 2,503,007	P -	P 2,503,007	2014
2010	34,366,252	18,936,927	15,429,325	2013
	P 36,869,259	P 18,936,927	P 17,932,332	
MCIT				
2011	P 3,203,172	P -	P 3,203,172	2014
2010	2,721,479	-	2,721,479	2013
	P 5,924,651	P -	P 5,924,651	

BMI did not recognize deferred tax assets on the following items in 2010 and 2009 as its management believes that the related tax benefits may not be realizable in the foreseeable future. In 2011, these deferred tax assets were recognized by BMI due to improvement in its operations based on its forecast which led the management to change its judgment relative to the realizability of the deferred tax assets.

	Amount		Tax Effect
	2010	2009	2010
Allowance for impairment of other receivables	P 441,477	P -	P 132,443
Unrealized foreign exchange losses	372,762	-	111,829
NOLCO	-	7,227,171	-
MCIT	-	234,271	-
	P 814,239	P 7,461,442	P 244,272

In 2011 and 2010, the Group opted to claim itemized deductions.

15.2 Registration with the BOI

On November 23, 2011 and December 10, 2008, the Parent Company had registered its activity for MT Thelma and MT Cherylyn with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, the Parent Company is entitled to tax and non-tax incentives which include a six-year income tax holiday (ITH). For MT Cherlyn, the related tax incentives started in April 2009. Meanwhile, the tax incentive for MT Thelma started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered activities.

Among the terms and conditions for the registration of MT Thelma with BOI is that the the Parent Company shall increase its authorized, subscribed and paid-up capital by at least P231.3 million or equivalent to 25% of the total project costs. In relation to this, the Parent Company received equity advances from UMRC amounting to P231.3 million (see Note 17.3).

16. RELATED PARTY TRANSACTIONS

The following are the transactions of the Group with its related parties in the ordinary course of business:

16.1 Transactions with Phoenix Petroleum Philippines Inc. (PPPI)

The Group renders hauling services and purchases fuel and lubricants from PPPI, a related party through common control. The transactions are made on the same terms as those transactions with third parties.

Charter fees recognized in 2011 and 2010 related to transactions with PPPI amounted to P304.1 million and P259.9 million, respectively. The Group also recognized standby charges amounting to P16.1 million each in 2011 and 2010 from PPPI. Both transactions with PPPI are presented under Revenues account in the consolidated statements of comprehensive income. As of December 31, 2011, 2010 and 2009, the related outstanding receivables amounted to P15.2 million, P6.2 million and P38.4 million, respectively, and are presented as part of Trade under Trade and Other Receivables account in the consolidated statements of financial position (see Note 5).

Fuel purchases in 2011 and 2010 from PPPI amounted to P145.0 million and P100.6 million, respectively. Fuel consumed were included as part of Bunkering under Costs of Sales and Services account in the consolidated statements of comprehensive income while the remaining fuel inventory were included under Other Current Assets accounts in the consolidated statements of financial position (see Notes 6 and 11). The related outstanding balance amounted to P42.2 million, P84.7 million and P48.5 million as of December 31, 2011, 2010 and 2009, respectively, and is presented as part of Trade and Other Payables account in the consolidated statements of financial position (see Note 9).

During 2011, the Company received advances from PPPI totaling to P114.8 million which were originally intended as payments for services to be provided by the Company to PPPI. The service, however, was subsequently cancelled and the total amount received was recorded by the Company as part of Advances from Customers account in the statement of financial position.

16.2 Transactions with Related Parties Under Common Ownership

The Parent Company renders hauling services to Subic Petroleum Trading and Transport Phils., Inc. (SPTT) amounting to P4.1 million in 2011. Related accounts receivables presented as part of Trade and Other Receivables account in the 2011 consolidated statement of financial position amounted to P2.6 million (see Note 5). The transactions are made on the same terms as those transactions with third parties. No similar transaction occurred in 2010.

In 2011, the Parent Company entered into a one year contract of lease for certain vehicle with Valueleases, Inc. (VLI). Related rent expense, which is recognized as part of other operating expenses, amounted to P0.4 million while the outstanding accounts payable, which is included as part of trade and other payables, amounted to P0.04 million (see Notes 9 and 12).

On January 1, 2007, the Group entered into an agreement with UMRC, wherein the latter will provide technical and professional services to manage the shipping operations of the Group in exchange for an annual fee of P5.4 million. The agreement was terminated in the second quarter of 2009. Total amount incurred relating to this transaction amounted to P1.9 million in 2009 and is included as part of Management and Professional Fees in the 2009 statement of comprehensive income. Outstanding balance resulting from this transaction amounted to P1.9 million as of December 31, 2009 which remained outstanding as of December 31, 2009 and is shown as part of Trade under Trade and Other Payables in the 2009 consolidated statements of financial position (see Note 9). The amount was fully settled in 2010.

16.3 Advances to and from Related Parties

The Group grants advances to and obtains advances from UMRC and other related parties through common ownership, mainly for the acquisition of certain vessel and for working capital purposes. As of December 31, 2011, 2010 and 2009, outstanding receivable and payable balances from these advances are shown as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position. Advances to Related Parties and Advances from Related Parties - current are noninterest-bearing and are expected to be paid within one year, hence, their carrying values are considered to be a reasonable approximation of their fair values. Non-current advances from related parties, on the other hand, are non-interest bearing. Non-current advances from PNX Chelsea and certain stockholder, being subordinated in payment of loans (see Notes 10.2 and 10.3), were discounted for the remaining term of the related loans using effective interest rate of 5.03% per annum. The related day-one gain amounting to P9.7 million, net of current year discount amortization of P0.3 million, was presented as part of Finance Costs - net account in the 2011 statement of comprehensive income (see Note 14.2).

In 2010, the Parent Company's BOD retracted its plan to file for an increase of the Parent Company's authorized capital stock. Consequently, UMRC agreed to the reclassification of the P128.8 million balance of Deposit on Future Subscriptions to non-current Advances from Related Parties (see Notes 17.1).

The breakdown of the Advances to Related Parties as of December 31 is as follows:

	2011	2010	2009
Parent:			
UMRC	**P 16,045,809**	P -	P 49,460,660
Related parties under common control:			
Udenna Environmental Services, Inc.	**257,300**	1,433,923	-
Udenna Energy Corporation	**121,270**	-	-
VLI	**22,219**	-	-
One Subic Power Generation Corp.	**-**	29,999	-
	400,789	1,463,922	-
Individual stockholder	**-**	3,794,697	P 9,857,205
	P 16,446,598	P 5,258,619	P 59,317,865

The movement of advances to related parties in 2011, 2010 and 2009 follows:

	2011	2010	2009
Balance at the beginning of year	**P 5,258,619**	P 59,317,865	P 49,460,660
Additions	**45,743,477**	1,434,001	47,640,192
Collections	**(34,555,498)**	(55,493,247)	(37,782,987)
Balance at the end of year	**P 16,446,598**	P 5,258,619	P 59,317,865

No impairment loss is recognized in 2011 and 2010 on advances to related parties.

The breakdown of the Advances from Related Parties as of December 31 is as follows:

	2011	2010	2009
Current:			
Parent:			
UMRC	**P 19,932,827**	P -	P -
Related parties under common control:			
SPTT	**436,822**	-	-
PPPI	**150,000,000**	91,684,497	46,574,409
Valueleases Inc.	**-**	4,532,927	-
Phoenix Petroterminals & Industrial Park Corp.	**-**	792,499	-
	150,436,822	-	46,574,409
Stockholders:	**16,708,255**	-	-
Total current	**P 187,077,904**	P 97,009,923	P 46,574,409

	2011	2010	2009
Current:			
Balance forwarded	**P 187,077,904**	P 97,009,923	P 46,574,409
Non-current:			
Parent:			
UMRC	**-**	78,430,491	-
Stockholders:	**24,102,695**	12,736,530	-
Total non-current	**24,102,695**	91,167,021	-
	P 211,180,599	P 188,176,944	P 46,574,409

The movement of advances from related parties in 2011, 2010 and 2009 follows:

	2011	2010	2009
Balance at the beginning of year	**P 188,176,944**	P 46,574,409	P 48,697,644
Additions	**173,719,239**	6,490,023	-
Payments	**(141,049,161)**	(45,110,088)	(2,123,235)
Day one gain - net	**(9,666,423)**	-	-
Reclassifications	**-**	180,222,600	-
Balance at the end of year	**P 211,180,599**	P 188,176,944	P 46,574,409

16.4 Equity Advances

Also in 2011, the Parent Company received advances from UMRC which is intended to be converted into capital stock investment in the future (see Note 17.3).

16.5 Others

(a) The TLA with DBP, OLSA with BDO, loan agreement with RBC and certain banks loans of the Parent Company were guaranteed by certain stockholders through a surety agreement with the respective banks. The two vessels owned by the subsidiaries were also used by the Parent Company as security for certain bank loans (see Notes 10.1, 10.2, 10.3 and 10.4).

(b) In 2011, the Parent Company charged certain related parties for their corresponding share on office space rent. Rental income amounted to P5.0 million and is presented as part of Miscellaneous Income (Expense) - net (see Note 14.1). Related receivable, amounting to P1.1 million as of December 31, 2011, is presented as part of other receivables (see Note 5).

(c) The Parent Company's key management personnel received short-term benefits amounting to P18.6 million and P15.2 million in 2011 and 2010, respectively, and post - employment benefits amounting to P0.1 million in each year of 2011 and 2010.

Approved by : _______________
Date : __________________

(d) The Parent Company has the following transaction with its subsidiaries which were eliminated in the Group's consolidated financial statements:

The Parent Company engaged the services of BMI and MI for its chartering and bunkering requirements. The service agreements are made on the same terms as those transactions with third parties. Bunkering expense incurred by the Parent Company related to the above service agreements amounted to P53.2 million and P92.8 million in 2011 and 2010, respectively. Likewise, related Charter Hire Fees incurred by the Parent Company amounted to P22.4 million and P57.3 million in 2011 and 2010, respectively. Bunkering expense and Charter Hire Fees were presented as part of Costs of Sales and Services account in the separate financial statements of the Parent Company.

As of December 31, 2011, 2010 and 2009, the related outstanding payables of the Parent Company amounted to P7.6 million, P40.8 million and P7.8 million, respectively, and are included as part of Trade under Trade and Other Payables account in separate financial statements of the Parent.

17. EQUITY

17.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2011	2010	2009	**2011**	2010	2009
Common shares – P100 par value						
Authorized – 5,000,000 shares						
Issued:						
Balance at beginning of year	**4,000,000**	3,000,000	3,000,000	**P 400,000,000**	P 300,000,000	P 300,000,000
Issued during the year	**-**	1,000,000	-	**-**	100,000,000	-
Balance at end of year	**4,000,000**	4,000,000	3,000,000	**400,000,000**	400,000,000	300,000,000
Subscribed						
Balance at beginning of year	**-**	1,000,000	P 1,000,000	**-**	100,000,000	100,000,000
Issued during the year	**-**	(1,000,000)	-	**-**	(100,000,000)	-
Balance at end of year	**-**	-	1,000,000	**-**	-	100,000,000
Subscription receivable						
Balance at beginning of year				**-**	(51,409,600)	(51,409,600)
Application of deposit on future stock subscriptions				**-**	51,409,600	-
Balance at end of year				**-**	-	(51,409,600)
				P 400,000,000	P 400,000,000	P 348,590,400

In 2009, the Parent Company, through its BOD, planned to increase its stock capitalization from P500.0 million to P800.0 million. As such, in 2009, UMRC made additional deposits for future stock subscriptions amounting to P128.6 million. An additional P100.0 million was also received from a prospective investor. The amounts received are presented as Deposit for Future Stock Subscriptions account in the 2009 consolidated statement of financial position pending the Parent Company's filing of the application with, and the corresponding approval of the SEC on the increase in the authorized capital stock.

In 2010, UMRC's BOD decided to apply against the Parent Company's Subscription Receivable to Deposit for Future Stock Subscriptions amounting to P51.4 million. Consequently, the Parent Company issued additional one million shares out of its unissued shares. In addition, the Parent Company's BOD retracted its plan to file for an increase in the Parent Company's authorized capital stock. Consequently, UMRC and the prospective investor agreed to the reclassification of the balance of Deposit on Future Stock Subscriptions amounting to P228.8 million to non-current Advances from Related Parties and Other Payables accounts for P128.8 million and P100.0 million, respectively (see Notes 9 and 16.3).

17.2 Prior Period Reclassifications

In 2011, the Parent Company changed the presentation and classification of certain items previously classified as drydocking costs under Other Non-current Assets account to Tanker (Vessel) under Property and Equipment account.

Presented below are the changes in the consolidated statements of financial position as of January 1, 2011 and 2010. Such reclassification resulted to prior period adjustments which increased the retained earnings as of January 1, 2011 and 2010 by P28.4 million and P4.4 million, respectively.

2010

	Notes	As Previously Reported	Prior Period Adjustments	As Restated
Changes in assets:				
Property and equipment	7	P 1,318,966,626	P 51,819,753	P 1,370,786,379
Other non-current assets	8	63,275,910	(23,463,511)	39,812,399
		P 1,382,242,536		P 1,410,598,778
Total adjustments to equity as at January 1, 2011			**P 28,356,242**	

2009

	Notes	As Previously Reported	Prior Period Adjustments	As Restated
Changes in assets:				
Property and equipment	7	P 1,382,334,571	P 49,334,092	P 1,431,668,663
Other non-current assets	8	106,517,019	(44,884,468)	61,632,551
		P 1,488,851,590		P 1,493,301,214
Total adjustments to equity as at January 1, 2010			**P 4,449,624**	

The effect of the reclassification in 2010 statement of comprehensive income is summarized below:

	Note	As Previously Reported	Prior Period Adjustments	As Restated
Costs of sales and services	11	P 424,083,299	(P 23,906,618)	P 400,176,681

The reclassifications of certain line items in the consolidated statement of financial position as of January 1, 2011 have the following effect in the 2010 statement of cash flows:

	As Previously Reported	Prior Period Adjustments	As Restated
Profit	P 297,346	P 23,906,618	P 24,203,964
Depreciation and amortization	118,027,090	(23,906,618)	94,120,472
Acquisitions of property and equipment	(8,639,024)	(4,318,393)	(12,957,417)
Additions in drydocking costs	(16,141,460)	4,318,393	(11,823,067)
	P 93,543,952	P -	P 93,543,952

17.3 Equity Advances

The Parent Company received P231.3 million equity advances from UMRC which is intended for conversion to capital stock in the future (see Notes 16.4 and 20).

18. ACQUISITIONS OF SUBSIDIARIES

18.1 Acquisition of BMI

On January 31, 2008, the Parent Company executed a Share Purchase Agreement (SPA) for the purchase of 200,000 shares of BMI, with a par value of P100 per share. Total acquisition price amounted to P32.0 million.

18.2 Acquisition of MI

On August 31, 2008, the Parent Company entered into SPA for the acquisition of 74,307 shares, representing the total outstanding shares of MI for a total purchase price of P75.0 million.

In accordance with the agreement, 20% of the purchase price or P15.0 million was paid in three staggered payments until September 30, 2008. The Parent Company also assumed the provision for retirement and other benefits of MI's existing employees amounting to P4.1 million. The remaining balance of P55.9 million shall be payable over 12 months in equal monthly installments, at 8% per annum, commencing on October 30, 2008. However, the Parent Company was not able to fully settle the remaining balance in 2008. The outstanding balance of the purchase price as of December 31, 2011, 2010 and 2009 amounted to P2.2 million, P7.5 million and P21.3 million, respectively, and is included as part of Others under Trade and Other Payables account in the statements of financial position (see Note 9). No penalties and other charges were imposed to the Parent Company for the default in payment.

Total interest incurred by the Parent Company on this transaction amounted to P0.3 million and P1.1 million in 2010 and 2009, respectively, and is presented as part of Finance Costs - net in the consolidated statements of comprehensive income (see Note 14.2).

18.3 Goodwill

The fair value of the net assets of BMI and MI as of the acquisition date amounted to P21.6 million and P11.1 million, respectively. As such, goodwill, which comprises the value of expected synergies arising from the acquisition of subsidiaries, amounting to P10.4 million for BMI and P63.9 million for MI representing excess of purchase price over the fair value of their respective net assets was recognized in the consolidated statements of financial position.

18.4 Investment in PNX – Chelsea

On February 2, 2011, the Company invested P100.0 million in a newly incorporated entity, PNX – Chelsea which is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description. As of December 31, 2011, PNX - Chelsea has not yet started commercial operations.

19. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

19.1 Significant Agreements

(a) Contract of Affreightment with Cebu Pacific Air, Inc. (CPA)

CPA contracted the Parent Company on January 9, 2009 for the transport of CPA's Jet A-1 fuel and other fuel requirements for aircrafts from their Subic Loadport to the ports of Mandaue City, Cebu; PPI Terminal, Davao City; New Washington, Zamboanga; and various ports in the Philippines. The agreement shall be effective for a period of three years and renewable upon agreement of the parties.

(b) Contract of Affreightment with National Power Corporation (NPC)

In 2009, the Parent Company entered into a contract with NPC for the transport of bunker fuel from the port of Sucat to the port of NPC in Calaca, Batangas and from port of Subic to the port of Malaya Thermal Plant in Pililia, Rizal. The Parent Company maintains a performance bond amounting to P6.4 million as guaranty for the agreement (see Note 6).

In 2009, the Sucat-Calaca route was subsequently cancelled. However, the performance bond and bank guaranty remains outstanding as of December 31, 2009 until released by NPC in 2010. The performance bond is included in the other assets in the 2010 statement of financial position (see Note 6).

19.2 Operating Lease Commitments – Parent Company as a Lessee

The Parent Company is a lessee under an operating lease covering its office space. The lease has a term of five years commencing on June 1, 2009 with renewal options, and include annual escalation rate of 3% on the second year and 6% from third to fifth year. The future minimum rentals payable under this operating lease are as follows as of December 31:

	2011	2010
Within one year	**P 7,488,188**	P 7,064,350
After one year but not more than five years	**12,725,744**	20,213,932
	P 20,213,932	P 27,278,282

Total rentals from these operating leases amounted to P7.1 million and P4.6 million in 2011 and 2010 and included as part of Rental under Other Operating Expenses (see Note 12).

Related security deposits, which are presented as part of Security Deposits under Other Non-current Assets, amounted to P2.5 million as of December 31, 2011 and 2010 and P2.4 million as of December 31, 2009 (see Note 8).

19.3 Legal Claims

MI has filed a complaint for sum of money against one of its customers for unpaid charter fees including damages. A Writ of Garnishment on the customer's funds for the amount of P16.0 million has been issued by the trial court in favor of MI.

The same customer filed a suit against MI for reimbursement and damages amounting to P13.8 million, for the loss it incurred from the contamination of its cargo, which was on board one of the MI's vessels in 2010. In the same year, the MI made a provision in the amount of P6.9 million for the amount of probable liability that it could answer for such claim. The related liability is presented within Other payables in the consolidated statements of financial position, while the related loss is presented as Loss on contamination of a customer's cargo in Miscellaneous Income (Expense) - net in the 2010 statement of comprehensive income (see Notes 9 and 14.1).

19.4 Others

There are other commitments and contingent liabilities that are not reflected in the consolidated financial statements. As of December 31, 2011 and 2010, management is of the opinion that losses, if any, from these items will not have a material effect on the Group's consolidated financial statements.

20. EVENT AFTER THE REPORTING PERIOD

On January 2, 2012, the BOD approved the increase in the Parent Company's authorized capital stock from 5 million shares to 10 million shares with the same par value. Accordingly, the BOD approved on the same date the related amendment to the Articles of Incorporation and filing the same with SEC.

21. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from its operating, financing and investing activities. The Group's risk management is coordinated with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

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

21.1 Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates, however, arise from the Group's cash, trade payables and interest bearing loans denominated in U.S. dollars.

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

U.S. dollar denominated financial assets and liabilities, translated into Philippine pesos at the December 31, 2011 closing rate follows. There is no significant foreign currency risk in 2010 and 2009.

Cash	P 650,249
Trade payables	(278,503,520)
Interest -bearing loans	(358,452,480)
Net exposure	**(P 636,305,751)**

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have increased by P103.0 million in 2011. If the Philippine peso had weakened against the U.S. dollar, then this would have decreased profit before tax for the year by the same amount. This sensitivity of the net result for the year assumes a +/-16.18% change of the Philippine peso/U.S. dollar exchange rate for the year ended December 31, 2011. This percentage has been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months for 2011 estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of the reporting period.

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

21.2 Interest Rate Risk

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At December 31, 2011 and 2010, the Group is exposed to changes in market interest rates through certain bank borrowings and cash in bank, which are subject to variable interest rates (see Note 10). All other financial assets and liabilities have either fixed interest rates or noninterest-bearing.

Interest bearing loans and cash in banks which are subject to repricing are tested on a reasonably possible change of +/-4.09% and +/-2.24% for 2011 and 2010, respectively, with effect from the beginning of the year. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of the each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/-P1.5 million and +/-P3.6 million for the years ended December 31, 2011 and 2010, respectively.

21.3 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.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. Also, it is the Group's policy that all customers are subject to credit verification procedures.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position as of December 31 as summarized below.

	Notes	**2011**	2010	2009
Cash	4	**P 37,666,308**	P 10,415,878	P 53,055,617
Trade and other receivables	5	**79,690,983**	82,288,576	80,335,676
Advances to related parties	16	**16,446,598**	5,258,619	59,317,865
Hold-out deposits	8	**10,000,000**	10,793,615	10,500,000
Other non-current assets:				
Security deposits	8	**2,622,998**	2,623,000	2,504,882
Bond deposits	6	**-**	-	6,412,673
		P 146,426,887	P 111,379,688	P 212,126,713

The Group continuously monitors defaults of counterparties and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

None of the financial assets are secured by collateral or other credit enhancements.

As to Cash in Bank and Hold-out deposits, these are maintained in highly reputable banks; hence, management assessed credit risk to be low.

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. Advances to related parties do not pose credit risk since these are due from entities that are financially stable and are able to meet their obligation as evidenced by the significant decrease in the receivable amounts.

Trade and other receivables that are past due over 120 days but not impaired amounted to P41.9 million, P11.1 million and P5.9 million as of December 31, 2011, 2010 and 2009, respectively. There are no other financial assets that are past due as of December 31, 2011, 2010 and 2009.

21.4 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring 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.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods.

As at December 31, 2011, 2010 and 2009, the Group's financial liabilities have contractual maturities which are presented below.

	Notes	**2011**			
		Current		**Non-current**	
		Within 6 Months	**6 to 12 Months**	**1 to 5 Years**	**Beyond 5 Years**
Trade and other payables (excluding output vat)	9	P 286,070,504	P 290,911,150	P -	P -
Interest-bearing loans	10	131,585,320	153,407,138	491,446,887	122,477,696
Advances from related parties	16	187,077,904	-	33,769,117	-
		P 604,733,728	**P 444,318,288**	**P 525,216,004**	**P 122,477,696**

	Notes	2010			
		Current		Non-current	
		Within 6 Months	6 to 12 Months	1 to 5 Years	Beyond 5 Years
Trade and other payables	9	P 327,170,892	P 24,179,884	P -	P -
Interest-bearing loans	10	145,467,105	145,467,105	499,987,894	-
Advances from related parties	16	97,009,923	-	91,167,021	-
		P 569,647,920	P 169,646,989	P 591,154,915	P -

	Notes	2009			
		Current		Non-current	
		Within 6 Months	6 to 12 Months	1 to 5 Years	Beyond 5 Years
Trade and other payables	9	P 123,832,367	P 118,613,436	P -	P -
Interest-bearing loans	10	169,155,023	169,155,023	748,905,457	-
Advances from related parties	16	46,574,409	-	-	-
		P 339,561,799	P 287,768,459	P 748,905,457	P -

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

Approved by : _______________
Date : ___________________

22. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	2011		2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets						
Loan and receivables						
Cash	P 37,666,308	P 37,666,308	P 10,415,878	P 10,415,878	P 53,055,617	P 53,055,617
Trade and other Receivables	79,690,983	79,690,983	82,288,576	82,288,576	80,335,676	80,335,676
Advances to related parties	16,446,598	16,446,598	5,258,619	5,258,619	59,317,865	59,317,865
Hold-out deposits	10,000,000	10,000,000	10,793,615	10,793,615	10,500,000	10,500,000
Security deposits	2,622,998	2,622,998	2,623,000	2,623,000	2,504,882	2,504,882
Bond deposits	-	-	-	-	6,412,673	6,412,673
	P 146,426,887	P 146,426,887	P 111,379,688	P 111,379,688	P 212,126,713	P 212,126,713
Financial Liabilities						
Trade and other payables	P 581,822,300	P 581,822,300	P 351,350,776	P 351,350,776	P 242,445,803	P 242,445,803
Interest-bearing loans	804,135,322	804,135,322	607,171,487	607,171,487	829,964,639	829,964,639
Advances from related parties	211,180,599	220,847,021	188,176,944	188,176,944	46,574,409	46,574,409
	P 1,597,138,221	P 1,606,804,643	P 1,146,699,207	P 1,146,699,207	P 1,118,984,851	P 1,118,984,851

See Notes 2.5 and 2.9 for a description of the accounting policies for each category of financial instrument. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 21.

23. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's objectives when managing capital is to ensure the Group's ability to continue as going concern in order to provide optimum return to shareholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new share or sell assets to reduce debt.

The Group monitors capital on the basis of the carrying amount of equity as presented in of the consolidated statements of financial position.

The Group monitors capital on the basis of the carrying amount of equity as presented in the consolidated statements of financial position. Capital for the reporting periods under audit is summarized as follows:

	2011	2010	2009
Total liabilities	**P 1,721,969,397**	P 1,155,398,603	P 1,181,219,143
Total equity	**755,047,761**	469,805,687	661,817,251
Debt-to-equity ratio	**2.28**	2.46	1.78

ANNEX "D"

PROXY

The undersigned stockholder of P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. (the "Company") hereby appoints Dennis A. Uy or in his absence, the Chairman of the meeting, as *attorney* and *proxy*, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Special Meeting of Stockholders of the Company on September 6, 2012 and at any of the adjournments there of the purpose of acting on the following matters:

<table>
<tr>
<td>
1. Approval of the Proposed Amendment of Article II on Secondary Purposes contained in the Company's Articles of Incorporation.
☐ Yes ☐ No ☐ Abstain

2. Approval of the Article VI on the number of directors contained in the Company's Articles of Incorporation.
☐ Yes ☐ No ☐ Abstain

3. Proposed Amendment of Article III Section 1(a) of the Company's By-laws on Composition of the Board of Directors
☐ Yes ☐ No ☐ Abstain

4. Proposed Issuance of Php180,000,000.00 warrants in relation to the Issuance of Php500,000,000.00 Convertible Notes to BDO Unibank, Inc.
☐ Yes ☐ No ☐ Abstain

5. Proposed Acquisition of 100% shares of stock in Chelsea Shipping Corp.
☐ Yes ☐ No ☐ Abstain
</td>
<td>
6. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.
☐ Yes ☐ No

____
PRINTED NAME OF STOCKHOLDER

____
SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY

____
DATE

No. of Shares:________________
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THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE <u>AUGUST 27, 2012</u>, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSES HIS INTENTION TO VOTE IN PERSON.