Sustaining Growth

2009
Annual Report
Phoenix Petroleum Philippines, Inc.

PHOENIX
Fuels Life

Our Vision

As the first home-grown publicly listed independent company in the Philippine petroleum industry, we will be:

The market leader in the retail business among independent oil players by the end of 2012.

Our Mission

Make "Phoenix Fuels Life" an experience.

- We value our customers by delivering excellent service
- We honor and develop business relations with our stakeholders
- We deliver attractive returns to our shareholders
- We enrich the quality of life of our people and their families, while creating opportunities to maximize the potential of each individual
- We take social responsibility to heart by building programs to nurture the environment and welfare of the communities we serve

Our Core Values

Integrity
We adhere to the highest standards of ethics and conduct. Our reputation defines who we are.

Excellence
We strive to be better in everything we do.

Service
All stakeholders are our customers, thus we provide unrivalled customer experience.

Innovation
We believe that change is constant. We challenge convention with fresh, better, and more valuable products, services and ideas.

Teamwork
We value relationships. We achieve our goal through collaborative efforts, recognizing the contribution of team members and respecting each other's opinions and ideas.

Stewardship
We nurture our resources responsibly.

About Phoenix Petroleum Philippines, Inc.

Phoenix Petroleum Philippines, Inc. is engaged in the business of trading refined petroleum products, lubricants, and car care products on a wholesale basis, operation of oil depots and storage facilities, and allied services.

As of end 2009, Phoenix Petroleum has 120 stations across the country, from Luzon, Visayas, and Mindanao. Its refined petroleum products and lubricants are traded through retailers and industrial customers.

The company's Terminaling and Hauling Services involve leasing of storage space in its terminal depot, hauling and into-plane services. Phoenix has depot and storage terminals in Davao City, Batangas, Aklan, Surigao, and Zamboanga. It is the exclusive logistics provider of Cebu Pacific in all its Mindanao destinations.

Phoenix Petroleum was incorporated in Davao City in 2002. It started operations in its current form in 2004 under the name Davao Oil Terminal Services Corporation (DOTSCO). In 2007, the company was renamed from DOTSCO to P-H-O-E-N-I-X Petroleum Philippines, Inc.

In July 11, 2007, Phoenix Petroleum, under the symbol PNX, launched its successful initial public offering, becoming the first independent oil company to be listed in the Philippine Stock Exchange after the passage of the 1998 Oil Deregulation Law.

About the Cover

The flying colors of Phoenix Petroleum represent the Company's performance and ambitions. The past years have seen remarkable growth - growth the Company aims to sustain and surpass in the years to come.

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2009 HIGHLIGHTS

February 23	PPPI awards dealership of the 100th station to endorser and world boxing champion Manny Pacquiao at General Santos City
March 10	PPPI acquires the Bacnotan Industrial Park Corp. (BIPC), owner and operator of Batangas Union Industrial Park, for approximately P680 million
April 30	PPPI launches *Raise a Phoenix* campaign in newspapers nationwide inviting franchisees
July 23	PPPI inaugurates the PPPI terminal and Phoenix Petroterminal and Industrial Park at Calaca, Batangas
November 26	PPPI and Social Security System sign the Subscription Agreement for SSS to purchase up to 10 percent of PPPI's outstanding capital stock. SSS acquired an initial 2.83% stake in the company for P42 million
December	PPPI ends the year with 120 stations nationwide

PPPI acquires Bacnotan Industrial Park Corporation in March 2009

The Phoenix Petroterminal and Industrial Park in Calaca, Batangas

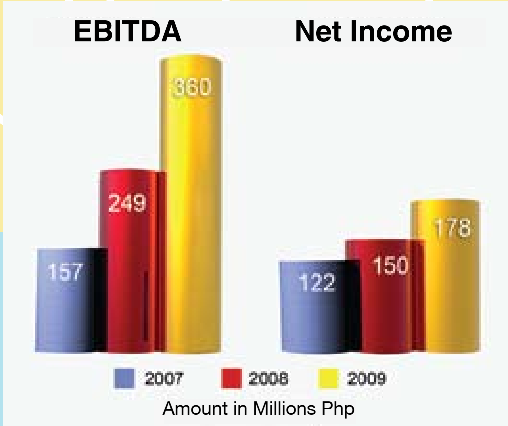
The Raise a Phoenix *campaign inviting franchisees*

Social Security System acquires up to 10% of PPPI

A Phoenix rises in Mexico, Pampanga

Financial Highlights

(All amounts expressed in Thousand (000), unless otherwise stated)	As of and for the years ended December 31 2009	2008	2007
INCOME STATEMENT DATA:			
Revenues	5,873,051	4,615,217	2,364,232
Cost of Sales and Services	5,181,074	4,194,196	2,097,438
EBITDA	360,305	249,309	156,996
Net Income	751,477	150,289	122,359
Net Income (Excluding Non-Recurring Income)	178,087	150,289	122,359
BALANCE SHEET DATA:			
Current Asset	2,918,843	1,457,228	762,661
Non-current Asset	2,084,570	910,853	429,543
Total Assets	5,003,413	2,368,081	1,192,205
Current Liabilities	2,661,182	1,581,920	532,036
Total Liabilities	3,474,553	1,677,323	625,623
Stockholders' Equity	1,528,860	690,758	566,582
FINANCIAL RATIOS:			
Current Ratio[1]	1.1 : 1	0.92 : 1	1.43 : 1
Debt to Equity[2]	2.27 : 1	2.43 : 1	1.1 : 1
Return on Equity[3]	67.71%	23.91%	32.19%
Return on Assets[4]	20.39%	8.44%	14.40%
Return on Sales	12.80%	3.24%	5.18%
Net Book Value Per Share[5]	5.76	3.75	3.93
Earnings Per Share[6]	3.48	0.91	0.95
Earnings Per Share[6a]	0.83	0.91	0.95
STOCK INFORMATION:			
Total Number of Shares Outstanding-Year End	265,311,674	184,151,198	144,205,000
Market Capitalization-Year End (in '000)	1,510,901	611,640	917,542
Stock Price-Closing (Year End)	7.00	3.70	7.10
Treasury Shares	3,849,000	3,849,000	795,000



Notes:
1 - Total current assets divided by current liabilities
2 - Total liabilities divided by tangible net worth
3 - Net income divided by average total stockholders' equity
4 - Net income divided by average total assets
5 - Total stockholders equity divided by the total number of shares issued and outstanding
6 - Net income after tax divided by weighted average number of outstanding common shares
6a - Net income after tax (Excluding Non-Recurring Income) divided by weighted average number of outstanding common shares

Starting 2010, the company will be working towards a new, bolder vision: to be the market leader in the retail business among independent oil players

Message to Shareholders

From the Chairman and President and CEO

To our fellow shareholders,

Growth gives us the opportunity to make things stronger, better, and more effective. This is what your company has done in earnest in 2009, another year of significant growth despite the challenging business climate.

The Philippines was not spared from the global economic crisis, but full-year GDP managed to grow by 0.9%. The auto industry reported overall growth of 6.4%, exceeding expectations and the 2008 growth of 5.6%.

Demand for petroleum products rose by 6% in 2009, according to the Department of Energy.

World oil prices fell at end-2008 but began to rise in June amidst hopes of economic recovery. At the close of 2009, crude oil prices rallied to an 80% growth to almost $80 a barrel. Oil prices in 2010 are expected to stabilize or increase.

The Philippine economy is poised to recover through increased consumer spending. National oil consumption is forecast to rise by up to 3% each year to 2014, according to Business Monitor International.

It is in this environment that Phoenix Petroleum Philippines, Inc. registered a 147% increase in market capitalization in end-2009.

Our stock price traded at a high of P7.10, closing at P7.00 in 2009. The Company declared a 40% stock dividend for shareholders on record as of July 8, 2009, and distributed August 3.

The increase in our share price from P3.70 at the start of 2009 to P7.00 at year-end, net of the effect of the 40% stock dividend, is proof that your investment in the company is earning.

For our investors since the initial public offering, your company has averaged annual return on equity of 41.27%. Total shareholder returns for the year were a positive 67.71%.

In 2009 Phoenix Petroleum posted a high of P178.1 million in core net income, 18.5% more than the P150.3 million earnings in 2008. Consolidated revenues increased 27.3% to P5.87 billion, driven by an 81% increase in fuel sales volume. This came from the Company's expansion in its retail station network and growth in sales to commercial accounts.

From zero market share in 2005, our company in 2009 obtained approximately 1.21% share of the market based on volume from 0.67% in 2008. Overall market share of independent oil players in the market has grown to 21.8%.

Phoenix Petroleum today has 13% market share in Mindanao and 18% in Davao Region in terms of retail stations, making us a clear fourth major player and the largest among the independents.

We attribute our company's growth to the following factors: a capable team, operational effectiveness, and financial management.

Core to an organization's strength is its people, and in 2009 we brought into the company additional highly qualified senior executives. They have reinforced our team, operations, and policies. It is an often quoted statement but one that we believe to be true: Our people are our greatest assets. We continue to equip our staff and dealers with training and skills they need to develop themselves.

In 2009 we steadily lay the groundwork for our expansion upwards from Mindanao to Luzon and Visayas. From 86 stations in 2008, we grew to 120 stations, an average of 3 stations per month. We ended 2009 with 99 stations in Mindanao, 1 in Visayas, and 20 in Luzon. Of these, 76% are dealer-owned and 24% company-owned.

Our company in 2009 obtained approximately 1.21% share of the market based on volume. In Mindanao our company now has 13% market share in terms of retail stations, making us the largest among the independents.

Calaca depot

In March 2009 we acquired the Bacnotan Industrial Park Corporation (BIPC), owner and operator of Batangas Union Industrial Park in Calaca, Batangas. The deal included a 3.9 hectare land owned by PHINMA located inside the industrial park.

The acquisition of BIPC at P680 million, funded internally and from loans, was a good value that strengthened our asset and equity position. The net asset valuation of BIPC was valued at P1.2 billion by three independent appraisers.

The industrial park serves a central role in our expansion. In July we inaugurated the 60-hectare park now known as the Phoenix Petroterminal and Industrial Park. The depot will serve as the hub of our Luzon operations and expanding retail network. It has a capacity of 50 million liters for our products from automotive diesel oil, gasoline, Jet-A1, and special fuel oil.

Partners

Over the years our company has grown with the support and confidence of financial institutions. In 2009 we more than doubled our credit line.

The next stage of our growth will involve strategic business partners and financial investors. From an initial 2.83% primary subscription in PPPI in November, government pension fund Social Security System already owns 9.7% of PPPI as of end-March 2010.

The vote of confidence and trust that SSS has given our company is a responsibility we will live up to as we keep in mind that our performance directly impacts the hard-earned wages of our countrymen.

Social Responsibility

A good company is not just profitable but one that is good to the community. We want the community to think of our stations as a sign of better things to come through increased opportunities for livelihood and entrepreneurship, and by playing an active role in the community's development.

We continued our projects for education and environment, aside from our annual outreach programs. Altogether our CSR projects in 2009 benefited some 2,000 people.

We are proud to have our people actively and voluntarily participate in these CSR programs. The company not only invests financial resources in these projects but human resource and corporate expertise on various fields from logistics, finance, purchasing, and communications.

Outlook

We started as a family business renamed to Phoenix Petroleum in 2006 that had a simple vision of becoming the brand of choice in Mindanao. Starting 2010, the company will be working towards a new, bolder vision:

> As the first home-grown publicly listed independent company in the Philippine petroleum industry, we will be the market leader in the retail business among independent oil players by the end of 2012.

Our company has laid the foundation for strategic growth. It starts with strengthening the basics: retail network, finance, and logistics.

2009 Stock Performance

	2009	2008
Year-end close	7.00	3.70
Year high	7.10	7.00
Year low	3.00	1.80

Start of 2009	3.70
Dividend adjusted	7.00
End of 2009	7.00
Total volume traded in 2009	83,625,194
Issued and outstanding shares	265,311,674

Sustaining this momentum of growth will be an equally challenging and rewarding task. The economy is seen to grow after a slowdown from the global financial crisis. The industry trend of increasing market share by independent oil companies is expected to continue.

Amidst these, our company has laid the foundation for strategic growth. It starts with strengthening the basics: retail network, finance, and logistics. Our business growth strategy will focus on retail network expansion, strategic terminal locations, jet fuel trading and service expansion, and direct fuels importation. These will be supported by an expanding product line, stronger brand equity, and enhanced financial capacity.

The prospects for our company are truly exciting.

For your trust and confidence in our company, we are immensely grateful to you our shareholders. We thank the Board of Directors for your guidance and the management team and staff for the hard work and passion you bring to the company. We thank our business partners, dealers, and customers for their support that has made Phoenix Petroleum soar high.

Greater things are coming. Join us as we journey towards becoming the country's biggest independent oil company.

Domingo T. Uy
Chairman

Dennis A. Uy
President and CEO

Q&A with

Romeo B. De Guzman

Chief Operating Officer

Mr. Romeo De Guzman is a veteran in the oil industry with over three decades of experience in various capacities. He started as a sales representative, held various management positions, and became Vice President - External Affairs for Asia Pacific at a multinational oil company until 2006. He joined Phoenix Petroleum Philippines, Inc. as Chief Operating Officer on March 1, 2009.

Coming to PPPI, you brought with you years of experience as a respected executive in the oil industry. What did you see in Phoenix Petroleum that made you take on the post? What is your observation of the people and PPPI's work?

Coming into a young and independent, publicly-listed oil company that wanted to expand in Luzon and Visayas, I took it as a challenge to grow the business. The man at the helm is young and aggressive, with a vision. I saw that majority of the middle-management group are more than qualified to head and manage the different functions. PPPI started on the right foot, doing niche marketing before expanding outside their comfort zone.

PPPI posted significant growth despite the economic downturn and strong competition. What factors helped Phoenix Petroleum grow in these times?

What helped the company grow are management's determination and leadership, getting the right people in the right positions, better understanding of the local market, and knowing competitors by heart.

The oil industry poses a number of challenges. What is the greatest challenge facing PPPI and what are you doing about it?

Culture is a great challenge. From a family-oriented organization, we need to move to a corporate style of managing the business. Slowly but surely, we have to start delegating authorities and responsibilities to managers and supervisors. The partnering workshops involving Sales and other support functions could be an answer to this. Everyone must understand their role. If this is a sales-oriented organization, it is obvious that Sales will play the lead role, to be supported by other functions like Finance, Procurement, Supply, and the others.

The Phoenix Petroleum brand has made good progress since it started. Can you explain what the brand will focus on to make it grow further?

> We envision Phoenix Petroleum to be a responsible corporate citizen of this country, run by professional individuals. We are positioning the Company higher than other independent companies and at par with the multinational organizations.

We envision Phoenix Petroleum to be a responsible corporate citizen of this country, run by professional individuals. We are positioning the Company higher than other independent companies, but should be at par with the four multinational organizations. The standardization or consistency of our retail network will be our visual manifestation. From Aparri to Jolo, people must see one "Phoenix." This should be supported by Phoenix Staff actions.

2009 was a pivotal year for PPPI. What are the growth priorities of the Company for 2010?

For 2009 to 2012, on top of the network development, it's also our priority to establish depots and installations in major cities to support Sales. The Zamboanga depot that was recently completed, Cagayan de Oro, Iloilo/Bacolod, Cebu, Subic/Bataan are included in our plan to ensure full support to Phoenix's total business. Those will be of great help to the existing Davao depot, Calaca terminal, and New Washington, Aklan.

With the economy on the road to recovery and a competitive market for the oil industry, what will be PPPI's strategy for growth in the next 3 years?

After the trade survey by the Retail Sales Group conducted in 2009, we were able to identify the market share gap between Phoenix Petroleum and the leading independents. For 2010, 2011, and 2012, we have already identified the key sites in Metro Manila, Luzon, Visayas (Cebu), Northern Mindanao and Zamboanga Peninsula, where we will establish our retail outlets, with the corresponding potential volumes. On top of the training of our own Sales Staff, we also programmed the training of our dealers and their forecourt attendants to ensure that we all focus in one direction. With regard to commercial business, we shall continue to penetrate the sunshine industries, to ensure that the Company acquires the best customers in the industry.


PHOENIX
Fuels Life

Review of Operations

At Phoenix Petroleum Philippines, Inc., our initials stand for more than our name. PPPI stands for our company's pillars of success: People, Passion, Performance, and Innovation.

People make an inspired organization. Performance means operational excellence. Passion delights the customer. Innovation drives continuous learning and improvement.

These values fueled the success of our company in 2009. The same values will power the growth that we will sustain – and surpass – in the next years as we become the largest independent oil company in the Philippines.

people

Inspiring a Team

We believe that an inspired organization is one that values people and relationships. At Phoenix Petroleum, we honor and develop business relations with our stakeholders. The growth of PPPI owes to the mutual efforts and cooperation of the company and our partners.

Our people are our most important resource. It is our goal that we enrich the quality of life of our people and their families, while creating opportunities to maximize the potential of each individual.

Team Phoenix grew 24% in 2009 to 232 people. Our offices in Davao, Manila, Cebu, Cagayan de Oro, General Santos, and Bacolod are home to people who contribute and hone their skills and knowledge to make PPPI grow. In the industry we have developed a reputation as an independent oil company driven by dynamic, aggressive, and professional people.

In 2009 we initiated and continued various human resource projects that covered a wide and holistic approach to developing our staff.

Our company improved implementation of the Annual Health Program. This includes annual physical exam; vaccinations; lectures and trainings on A(H1N1), dengue fever, leptospirosis, and first-aid; screenings and tests; medical bulletins; and health care plan and life insurance.

Sharing the Vision

With over a hundred stations of PPPI nationwide today, Mr. Celso Agbones is proud to own the second Phoenix Petroleum station. That was back in 2005, when he opened a Phoenix station in Tagum City, Davao del Norte. After four years, Celso has four Phoenix stations, all in Tagum.

His station in Mangkilam consistently tops volume sales. An additional two pumps are being constructed for expansion. Another station in Visayan National Highway is also a top volume performer.

"I believe in Phoenix Petroleum's philosophy and vision. Phoenix's vision used to be that of becoming the brand of choice in Mindanao. Now it aims to be the top independent oil player in the country," he says. "I want to be part of the top."

He likes that the company treats dealers as business partners. "All transactions are done professionally, handled with due care, and not left unattended."

Phoenix Petroleum dealer Mr. Celso Agbones and his family

Teambuilding workshops were held to improve understanding in and among business units. An annual activity is the PhoeniXtreme Quest sportsfest, which emphasizes teamwork and sportsmanship.

Trainings were held on safety, compliance with regulatory bodies, management, finance, oil analysis, and fire prevention. We continue to hold weekly flag ceremonies and monthly First Friday mass at our Davao depot.

Outstanding employees were recognized through the Phoenix Pride award. In June 2009 our group of firefighters received the award after putting out a fire at a neighboring commercial building.

We launched the *Save on Cost, Earn Rewards Program* to promote judicious use of company resources. Staff responded with practical suggestions, which are now implemented by the company.

Performance is evaluated through the PacePro system. Supervisor and staff discuss and set goals together at the start of the year, and evaluate their performance based on key result areas.

With 120 Phoenix Petroleum stations employing some 10 service crew per station, our company indirectly employs 1,200 more people. Our retail station dealers and service crew attendants receive regular trainings to update their skills. At the start of the year all dealers are gathered together to set targets and craft action plans for their station and area. At year-end, we recognize outstanding dealers, commercial accounts, and suppliers during the annual Business Partners' Appreciation Night.

In the next year our company will enhance the staff recruitment process, HR systems, policies and procedures. We will continue to implement the existing performance management system and recognize and reward high performers. We are setting in place an employee professional development program that will include career pathing, individual competency track, and coaching and mentoring.

He attributes his success to four things: God, family and teamwork, goal and passion, and quality service.

He shares his faith with his employees through weekly meetings and fellowships. His staff are his relatives. "My business is also their business." His wife and two daughters are actively involved in the business.

"To succeed, every business must have a goal and the passion to attain it," says Mr. Agbones. "When you affirm big, believe big and pray big, as the quotation goes, big things happen."

Aside from being a Phoenix dealer, Mr. Agbones is a Certified Public Accountant and owns an auditing firm.

He does not want his employees to be employees forever. They established a cooperative that now has 62 employee-members. The coop's goal is to acquire a 5-10 hectare lot for their employees' or coop village and a portion for realty business.

"Starting from Mindanao, Phoenix Petroleum now aims to be the top independent player in the country. I want to be part of the top."

Mr. Agbones knows he cannot achieve these without establishing quality service and good relationship with customers. "A well satisfied customer is our best advertiser," he says.

Mr. Agbones predicts that three years from now, Phoenix Petroleum will achieve its goal to be the number one independent oil player in the country. His immense pride is in being part of Phoenix from the start.

Strengthening Operational Excellence

Quality planning and excellent execution lead to outstanding performance. When all stakeholders are aligned towards the same vision through proper communication, the result is operational excellence.

In 2009 our company reached more locations across the country. We opened our first station in Cebu and more stations in Luzon and Mindanao. From 86 stations the previous year, Phoenix Petroleum had a total of 120 operational stations nationwide in 2009. Ninety nine were in Mindanao, 1 in Visayas, and 20 in Luzon. Of these, 76% are dealer-owned, dealer-operated stations.

PPPI improved market share in Mindanao from 11% to 13% in 2009 in terms of retail stations. That makes us the biggest independent oil company in the southern island.

Market share in volume grew from 0.67% to 1.21% as a result of growth in retail network, commercial accounts, and lubricants business.

World boxing champion Manny Pacquiao and PPPI President and CEO Dennis Uy at the opening of Pacquiao's own Phoenix station in General Santos City, February 23, 2009

To strengthen our supply chain, we continue to import fuel through affiliate company Chelsea Shipping Corporation. Direct fuels importation is part of our growth strategy as we make our supply chain reliable and efficient.

Key to our expansion is terminals in strategic locations around the country. Our terminals in Davao City, Calaca in Batangas, New Washington in Aklan, Hijo in Davao, Zamboanga, and PICOP in Bislig, Surigao del Sur can altogether store up to 68.5 million liters of petroleum products.

More depots are planned in northern Mindanao and Visayas to support new retail stations in those areas.

Our Davao depot is ISO certified, having received its ISO 9001:2000 Quality Management System certification for storage and distribution of petroleum fuels and plane refueling services in 2008.

We continue to serve the plane refueling requirements of Cebu Pacific in all its Mindanao destinations and of Philippine Airlines in Ozamis City. In 2010 we will begin serving airlines in Luzon and Visayas.

The PPPI depot in Calaca, Batangas has a capacity of 50 million liters

PPPI is the exclusive logistics partner of Cebu Pacific in all its Mindanao destinations

Bacoor, Cavite mayor Strike Revilla and PPPI endorser Marian Rivera lead the opening of the Daang Hari-Molino station, July 30

PPPI executives, dealers and service crew of Phoenix Aglayan in Bukidnon on its opening in August 2009 performance

"I see Phoenix Petroleum to have a big potential in being competitive in the industry. I admire the company's success and aggressive plans."

Spreading the Passion

Mr. Leandro and Mrs. Normelita Ambata in their Phoenix station in Cavite

When the opportunity came to be one of the pioneer dealers of Phoenix Petroleum in Luzon, Mr. Leandro Ambata took the chance. He opened his first Phoenix Petroleum station in Amadeo and his second in General Trias, Cavite both in 2009.

Mr. Ambata and his wife Normelita are veterans in the business. As a gasoline station dealer for 16 years under one of the majors, they have gained experience and deep knowledge in handling the business.

"I see Phoenix Petroleum to have a big potential in being competitive in the industry," says Mr. Ambata. "I admire the company's success in Davao and aggressive plans here in Luzon to be known and competitive."

He makes sure his stations are clean, his people well-trained, and service is courteous. Aside from being a Phoenix dealer, Mr. Ambata practices his profession as an electrical engineer. "An engineer is always an engineer," he says.

The oil industry has taught him valuable lessons. "In this business, there were a lot of ups and downs that my family experienced. The two things that helped us survive and succeed are to have faith in God and a positive outlook in life."

As a Phoenix dealer, Mr. Ambata is eager to do his part to make Phoenix Petroleum the country's leading independent oil company. "For me, it's all about hard work, perseverance, and dedication."

Passion is providing creative ways to delight the customer. It means understanding and anticipating their needs and finding the best approach to exceed them.

In 2009 our company underscored passion through aggressive marketing campaigns aimed at raising brand awareness and customer satisfaction.

Our *Raise a Phoenix* and *Rise of the Phoenix* media campaigns were successful in introducing the company to more businessmen and motorists. These ads, featuring dealers and world boxing champion and Phoenix dealer Manny Pacquiao, appeared in newspapers and billboards. We received numerous inquiries on franchising to our website and our 1-800 number.

This toll-free number, 1-800-10-PNX-FUEL, was especially set up to provide an easy-to-remember number for franchising inquiries. We are proud to be the first in the industry to have such facility.

Aside from ad campaigns, we joined trade expos and franchising shows and enhanced media visibility through price updates, corporate news, and business features.

We launched successful promotions that brought increased business to our stations: *Tubil na Bai*, *Pacman Match and & Pa-Porma Promo*, and *Pamaskong Handog Mula Sa Phoenix* fuel discount.

Our company began a fruitful partnership with the Philippine Basketball Association. The league's provincial games, called the *PBA – Phoenix Fuels On Tour*, has generated significant brand awareness for our company nationwide.

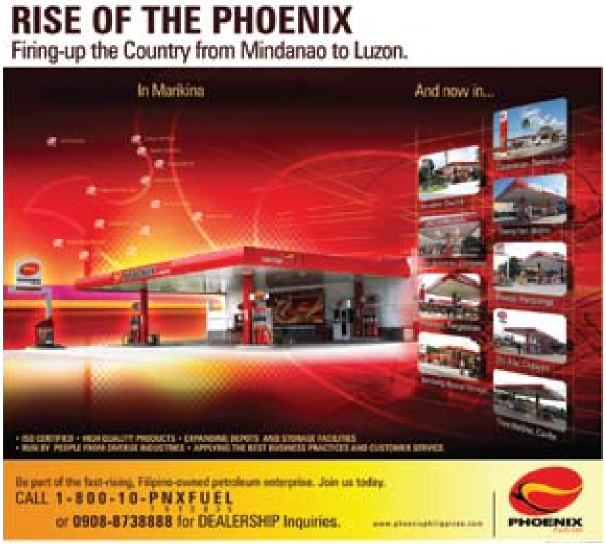
In March 2009 we launched the 1st Phoenix Open golf tournament in Davao City as a major sporting event of the Araw ng Dabaw festival. The tournament is designed to be a prestigious event that will gather valued business partners from Luzon, Visayas, and Mindanao. Funds raised from the Phoenix Open benefit the Phoenix Philippines Foundation, Inc. and charities the company supports.

Additional external projects include support of local festivals and Battle of the Grandmasters Chess Tournament in Zamboanga.

In the next year we plan to provide non-fuel services to our motorists so that a Phoenix station becomes a one-stop shop for their needs.

passion

Delighting the Customer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Firing-up the Country from Mindanao to Luzon.
In Marikina
And now in...
Be part of the fast-rising, Filipino-owned petroleum enterprise. Join us today.
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or 0908-8738888 for DEALERSHIP Inquiries.
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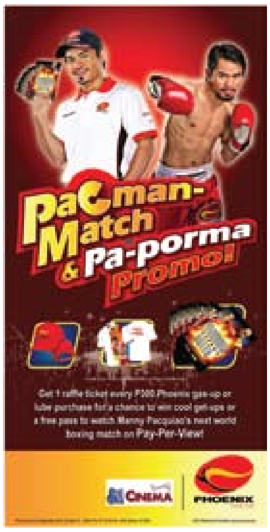
CONTRACT SIGNING
2009 PBA-PH IX FUELS ON OUR
PHOENIX
PNX


Libreng TUBIG sa Tag-araw,
Ginhawa ay dulot sa Driver na Uhaw!
TUBIL na bai!
FREE
One 350ml Nature's Spring Water for every P300 single or accumulated Fuel or Lubricants purchase.
NATURE'S SPRING
PHOENIX


RAISE A PHOENIX


PHOENIX
Petroleum
PHOENIX
Petroleum


PaCman-Match & Pa-porma Promo!
Get 1 raffle ticket every P300 Phoenix gas-up or lube purchase for a chance to win cool get-ups or a free pass to watch Manny Pacquiao's next world boxing match on Pay-Per-View!
SM CINEMA
PHOENIX


ATF


SALAMAT PO!
PAMASKONG HANDOG NG PHOENIX!
₱2/Li DISCOUNT
ON ALL FUEL PRODUCTS
DECEMBER 23, 2009 • 1 P.M. TO 3 P.M. ONLY
- PROMO MECHANICS -


PHOENIX

Innovation is a continuous search for what works simpler, faster, and better. Phoenix Petroleum fuel and lubricant products adhere to strict quality standards to ensure high performance of vehicle engines.

Our products are sold through a wide network of retail stations, commercial and industrial accounts, and distributors nationwide.

Sales volume of petroleum products grew 81% in 2009 as a result of a wider distribution network and expanded institutional customer base.

innovation

Continuing Learning and Improvement

PHOENIX RAPTOR X PREMIUM

PHOENIX glide SUPER UNLEADED

MAGMA DIESEL

PHOENIX regular

PHOENIX JET -A1

Our lubricants business continues to grow with a 38% increase in sales volume from 2008. The growth comes from the re-launch of products and merchandising collaterals, merchandise support and sponsorships to external activities, aggressive branding, and initiatives to increase 4T MCO oil in the markets.

In 2010 we will launch more products, roll out a media campaign for fuels and lubes distributorship, and participate in more transport shows to promote the Phoenix experience of our products.


ZOELO
DEO
Diesel Engine Oil
PHOENIX
2T
MAX
ACCELERATE
SUPREME
TITAN
4T
AUTOMOTIVE
GEAR OIL
GL-4
SAE 90
AUTOMATIC
ATF
TRANSMISSION FLUID
OIL
TIRE BLACK
GREASE
NLGI 3
DOT 3
BRAKE FLUID


"PHOENIX ADOPT A RIVERBANK-
SAVE DAVAO RIVER PROJECT"
PHOENIX


PHOENIX
Fuels Life


PHOENIX Cares


TURN-OVER OF DONATIONS


PHOENIX Cares

Phoenix Petroleum Philippines, Inc. believes that a good company is not only profitable but one that is good to the community and the country.

Our mission highlights our corporate citizenship: "We take our social responsibility to heart by building programs that nurture the environment and welfare of the communities we serve."

Through the Company's CSR arm, Phoenix Philippines Foundation Inc. (PPFI), we live up to our core value of stewardship through projects that uplift the lives of the community.

Our business partners support as well our CSR programs through fund-raising events such as the Phoenix Open golf tournament and Business Partners' Appreciation Night.

PPFI core programs are Education, Environment, Health and Safety, Disaster Relief, and Outreach.

Serving the Community

Education

Adopt A School

Phoenix Foundation is on its second year of participation in the government's "Adopt A School Program" through two schools.

At the Vicente Hizon Elementary School in Davao City, at least 120 pre-school students benefit each school year from PPFI's sponsorship of the honorarium of two pre-school teachers and budget for instructional materials.

Moreover, PPFI's sponsorship benefits 25 adult students of the Sunday school at the Doña Asuncion Hizon Elementary School. PPFI also donated two computer sets to the school.

Phoenix Alternative Learning System Program

PPFI launched in August 2009 the Phoenix Alternative Learning System Programs at the Doña Asuncion Hizon Elementary School.

The ALS, a project of the Department of Education, consists of the Sunday High School Program and the Livelihood Training Program. The Sunday High School program is designed for househelpers and children whose families cannot afford to send them to school.

The TESDA-accredited Livelihood Training Program helps poor families to augment their income. Courses include welding and electrical, food and beverages, and cosmetology.

Phoenix Foundation sponsors the monthly honorarium of the teachers, who teach about 25 students each term.

Environment

Coastal Clean-ups

Since 2008, Phoenix staff regularly participate in the annual International Coastal Clean-up organized by the Department of Environment and Natural Resources, local government, and other environmental groups.

In Davao, Team Phoenix cleans the shoreline and beachfront of Brgy. Pampanga, Coaco Beach in Lanang. Phoenix staff at the Manila office and the Phoenix Petroterminal and Industrial Park in Calaca, Batangas regularly join coastal clean-ups in Batangas.

Pawikan Conservation

The Phoenix Petroterminal and Industrial Park in Calaca, Batangas is home to the Pawikan Conservation Project ongoing for many years in partnership with the local government and DENR-Protected Areas and Wildlife Bureau. Pawikan eggs are incubated at the make-shift hatchery just outside the terminal walls.

Since 2005 up to April 2010, 891 eggs have been transplanted, 547 hatchlings have been released and 34 adult pawikan have been tagged and released to the sea.

Adopt a Riverbank - Save Davao River

In August 2009, PPFI adopted three kilometers of the El Rio Vista Riverbank as part of the Company's efforts to save the Davao River. Team Phoenix planted 1,000 seedlings of malibago and released a total of 20,000 tilapia fingerlings.

PPFI holds this project in partnership with Brgy. 19-B, Protect Davao River Movement, Solidarity of Multisectoral Group in Davao City (Solid Davao), Gagmayng Kristohanong Katilingban (GKK), and the Bureau of Fisheries and Aquatic Resources-XI.

Disaster Relief

Tropical Storm Ondoy Donation

In October 2009, PPPI staff nationwide sent contributions to the Manila office for victims of tropical storm Ondoy in Manila. Phoenix staff distributed some 300 bags of relief goods to victims in Marikina City, site of Phoenix Petroleum's first retail station in Luzon.

Turnover of Uswag GK Designer Homes in Compostela Valley

After the landslide in Masara, Maco, Compostela Valley in September 2008 that killed 24 and affected 279 families, PPFI went to the area to hand over a truckload of rice, noodles, and canned goods. A year later, 204 affected families had new homes – built by them, the provincial and local government, DSWD, Gawad Kalinga, and sponsors like PPFI. On Dec. 5, 2009, PPFI formally turned over two houses to beneficiaries at the Uswag GK Designer Village in Brgy. Kinuban, Maco.

Health and Safety

Ready, Set, Give: Be a Phoenix Life Saver

Since 2008, PFPI has held annual bloodletting projects in coordination with the Philippine Red Cross. Phoenix employees and partners donate the gift of blood.

Fire Safety

Phoenix Petroleum holds regular training to its firefighters in cooperation with the Davao City Fire Brigade. The Company acquired its own fire truck in March 2008, based in the Phoenix Bulk Depot Compound in Lanang, Davao City. The fire truck is equipped with a foam proportioning system, designed to put out residential and industrial fires.

When a fire broke out at a nearby building in June 2009, the PPPI firefighting team was first to respond. The fire was extinguished after 15 minutes. No one was injured.

The affected store, Carlos 01 Hardware, thanked PPPI "for the voluntary services you have extended to us in the hours of our need and difficulty that would have changed the flow of our existence in the business community (had we not) been saved by your staff, specifically the equipped firemen of your establishment."

Outreach

Christmas Day for Kids

Phoenix Foundation has made it an annual event to give a Christmas party to children.

In 2009, Phoenix held two batches of Christmas parties to a total of 1,500 children in Sasa, Davao City. The kids enjoyed the games and received school supplies and snacks from Phoenix Foundation.

Since 2007, these outreach programs have benefited some 3,500 children and adults.

Molding Lives

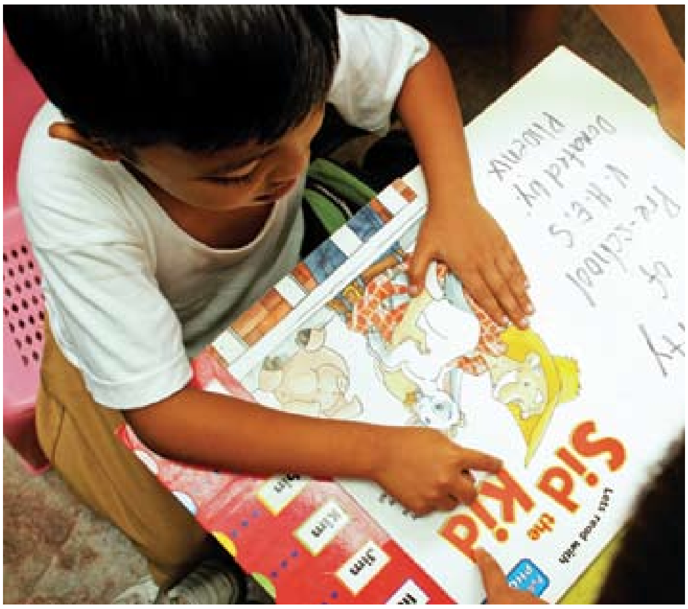
Six-year-old Jaleray Puti-an likes math and wants to be a doctor someday. He is the fourth of five children by parents who work at a nearby commercial complex. It's a big help for them that Jaleray studies at the Vicente Hizon Sr. Elementary School in Davao City. Under the government's Adopt-a-School program, the pre-school students receive free education, thanks to the sponsorship of Phoenix Philippines Foundation, Inc.

The sponsorship of PPFI has increased pre-school enrollment by at least 20 percent, says school administrator Mrs. Filipinas Samblingo. With the government's no collection of tuition policy, the public school had to find a donor to sponsor the honorarium of their teachers so they could continue pre-school classes.

The two teacher beneficiaries are Mrs. Adelfa Bachanicha and Mrs. Maria Barcellana, who have taught for 20 and 12 years respectively.

As pre-school teachers, they know the important role they play in children's lives.

"We teach them how to hold a pencil, how to write their first letter, how to recognize sounds," says Teacher Maria. "We are the ones who mold the children."



PPFI also provides a monthly budget for instructional materials – enabling the school to buy big colorful books on reading, writing, math, science, and Filipino, one for each student.

"Our students do not come from rich families, that's why when you give them those kinds of books, they really enjoy it," says Teacher Adelfa.

"We teach them how to hold a pencil, how to write their first letter, how to recognize sounds. We are the ones who mold the children."

She and Teacher Maria each teach two classes of 30-35 students every morning and afternoon, or at least 120 students every school year.

"I love children," says Teacher Maria. "I feel proud when parents tell me good feedback about their children."

Teaching runs in the family for Teacher Adelfa. Her two sisters are teachers. One of them sent her to school, telling her to take up education. Twenty years on, Adelfa is still teaching.

A teacher's life isn't easy but the children make it rewarding. "Even if you get angry, they still love you," she says. When she wasn't feeling well, a young student tried to comfort her through a gentle massage. "I was very touched."

Teacher Maria says patience and friendliness are a teacher's assets. "We must be on our best behavior because we are models for the children. They imitate what we say, even what we wear."

When they see their students affected by family problems, the teachers talk with parents. "We give guidance and counseling to parents, and they listen to us because we're older than them. It is an accomplishment that we at least helped iron out the parents' problems," says Teacher Maria.

Teacher Adelfa's voice breaks when she talks about her former students. One became a nurse, another a teacher. "It feels good when I see them succeed."

The Board of Directors

PHOENIX PETROLEUM PHILIPPINES, INC.

J.V. Emmanuel A. De Dios
Director

Monico V. Jacob
Independent Director

Jose Manuel R. Quimson
Director

Domingo T. Uy
Chairman

Dennis A. Uy
Vice Chairman, President and Chief Executive Officer

Romeo B. De Guzman
Director

Ricardo S. Pascua
Independent Director

Domingo T. Uy 1
Chairman

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

Dennis A. Uy 2
Vice Chairman, President and Chief Executive Officer

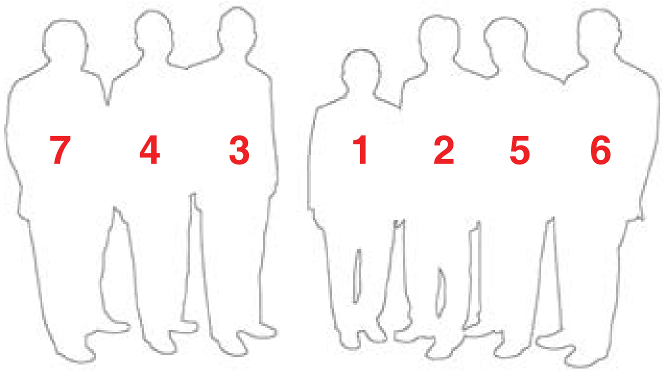
Dennis A. Uy, Filipino, 36 years old, is the founder of PPPI and has served as President and Chief Executive Officer since inception. He is currently the Chairman of the Board of Directors of Phoenix Petroleum Holdings, Inc., the holding company of PPPI and Udenna Corporation, the ultimate parent company of PPPI. Among the subsidiaries of Udenna Corporation are Udenna Management & Resources Corp., Chelsea Shipping Corporation, Global Synergy Trade and Distribution Corp., Udenna Development Corporation, and Value Leases, Inc. He is Chairman of F2 Logistics, Phoenix Philippines Foundation, Inc. and Udenna Foundation, Inc. Mr. Uy is also a Member of the Management Association of the Philippines (MAP), the American Chamber of Commerce, Davao Chapter, the Davao City Chamber of Commerce and a Business Sector representative to the Chinatown Development Council in Davao. Mr. Uy holds a Bachelor of Science Degree in Business Management from De La Salle University.

Jose Manuel R. Quimson 3
Director

Jose Manuel R. Quimson, Filipino, 61 years old, was elected Director of PPPI on February 15, 2007. He is concurrently General Manager of Phoenix Petroterminal and Industrial Park. He is also the Vice President & Chief Operating Officer of Chelsea Shipping Corp. Mr. Quimson is a member of the Board of Directors of the Udenna Corporation and its subsidiaries. Previously, he was President of Petrotrade Philippines, Inc. a company providing bunkering services to international vessels. Mr. Quimson was Vice Chairman of Herma Shipyard, Inc. and President of Transman Shipping Corporation and the Transport Managers, Inc. He was the Managing Director of Delbros Group of Companies, where he started his professional career in 1970 as a Financial Analyst. Mr. Quimson has more than 30 years of work experience in the shipping industry. He is a graduate of the MBA Program of the Ateneo de Manila University Graduate School of Business in 1972.

Atty. J.V. Emmanuel A. De Dios............ 4
Director

J.V. Emmanuel A. De Dios, Filipino, 44 years old, was initially elected as Independent Director of PPPI on February 15, 2007. He was elected regular director on March 7, 2008. He is President, CEO and Director of Nido Petroleum Pty Ltd., an Australian Stock Exchange-listed oil and gas company. He is Managing Director of Merritt Advisory Partners, Inc. and is a member of the Board of Directors of Davies Energy Systems, Inc. He is a Special Counsel at the Romulo Mabanta Buenaventura Sayoc & De Los Angeles Law Office. Atty. De Dios completed his Masters of Law at Harvard Law School and is its Alumni Association's Secretary. He was Chairman of the Philippine National Oil Company Exploration Corporation and was former Undersecretary of the Philippine Department of Energy. He was the Philippine Representative and Panel Participant of the Philippine-Kingdom of Thailand Bilateral Corporation Meeting. Atty. De Dios took his Master of Laws at the Harvard Law School and completed his Bachelor of Laws at the Ateneo de Manila University School of Law.



Romeo B. De Guzman 5
Director

Romeo B. De Guzman, Filipino, 60 years old, was elected Director of PPPI in 2009. He joined the Company as Chief Operating Officer in March 1, 2009, bringing with him 35 years of outstanding experience in the oil industry. Before joining PPPI, he was with Pilipinas Shell Petroleum Corporation, where he was Vice President for External Affairs for Asia Pacific. He was with the said company holding various management and executive positions. He also worked with Getty Oil Philippines Inc. for 10 years. He holds a degree of Bachelor of Science in Commerce - Major in Management Marketing from San Sebastian College of Manila. He completed his Master in Business Administration in the same institution in 1981.

Ricardo S. Pascua 6
Independent Director

Ricardo S. Pascua, Filipino, 61 years old, was elected Independent Director of PPPI on February 15, 2007 and currently serves in the same capacity for various corporate and foundation boards. He sits as Chairman of the Board and President of Happy Communications, Inc., a wireless broadband IP network operator and ITC applications services provider. He is Chairman of the Board of Caelum Developers, Facilities and Property Mgmt Technologies, and Lucena Biodiesel Energy Corporation. He is Chairman of the Executive Committee of Phoenix Land Inc., a farm-oriented and residential resort developer. He was formerly Vice Chairman, President and Chief Executive Officer of the Metro Pacific Corporation and the Fort Bonifacio Development Corporation. He completed his Master in Business Management from the Asian Institute of Management.

Monico V. Jacob 7
Independent Director

Monico V. Jacob, 64 years old, was elected as Independent Director of PPPI on March 7, 2008. He is President and Chief Executive Officer of the STI Education Services Group and iAcademy. Mr. Jacob is Chairman of Global Resource for Outsourced Workers (GROW), Inc., STI-Universal Workers, Inc., Accent Healthcare/ STI Banawe, Inc., and Total Consolidated Asset Management, Inc. He is a Partner of the Jacob and Jacob Law Firm and is a member of the Board of Directors of Jollibee Foods, Inc. and Philippine Dealing Systems. He is Chairman and Managing Partner of CEOs Incorporated. He was formerly Associate Commissioner of the Securities and Exchange Commission, General Manager of National Housing Authority, and CEO of the Pag-Ibig Fund. He is a former Chairman and Chief Executive Officer of Petron Corporation and of the Philippine National Oil Company. Mr. Jacob finished his Bachelor of Arts degree with a Major in Liberal Arts from the Ateneo de Naga University in 1966 and his Bachelor of Laws degree from the Ateneo de Manila University in 1971.

Corporate Governance

Phoenix Petroleum Philippines, Inc. believes in conducting its business activities in accordance with the utmost degree of governance and control to ensure that its vision and mission are achieved in the strictest standard of competence, excellence and integrity.

On March 7, 2008, during the regular meeting of the Board, the Manual of Corporate Governance which incorporated the best practices was approved and adopted to establish the principles of good corporate governance for the entire Corporation. The adoption of the new Manual of Corporate Governance replaces the old manual of corporate governance prescribed by the SEC which was then observed and followed by the Company. Moreover, the adoption of the new Manual now complies with the SEC requirement that before assuming office, a director must attend a seminar on corporate governance conducted by a duly recognized government or private institution.

BOARD STRUCTURE AND PROCESS

Key Roles

Under the new Manual or Code, corporate governance shall rest on the Board of Directors. The terms and conditions as stated in the Manual adhere to transparency and accountability to consequently enhance shareholder's value. Practical management of the Corporation's governance standard is exercised through the Board's committees:

• *Executive Committee.* The Executive Committee, in accordance with the Company's By-laws and by majority vote of all of its members, acts of specific matters within the competence of, or as may be delegated by the Board of Directors except as specifically limited by law to the Board of Directors.

• *Compensation Committee.* The Compensation Committee shall ensure that levels of remuneration shall be sufficient to attract and retain the directors and officers needed to run the Company successfully. A proportion of executive directors' or officers' remuneration may be structured so as to link rewards to corporate and individual performance. It also establishes a formal procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, if any, and officers and provides oversight over remuneration of senior management and other key personnel.

• *Nomination Committee.* The Nomination committee shall review and evaluate the qualifications of all persons nominated to the Board, as well as those nominated to other positions requiring appointment by the Board. The decision of the Nomination Committee as to the nominees to the Board of Directors, once confirmed by the Board of Directors, shall be final and binding upon the shareholders and may no longer be raised during the stockholder's meeting.

The Nomination Committee shall likewise promulgate the guidelines or criteria to govern the conduct of nominations; provided, that any such promulgated guidelines or criteria governing the conduct of the nomination of Independent Directors shall be properly disclosed in the Corporation's information or proxy statement or such other reports required by the Securities and Exchange Commission.

• *Audit Committee.* The Audit Committee provides oversight financial management function in managing credit, market, liquidity, operations, legal and other risks of the Corporation. The committee also oversees Phoenix Petroleum Philippines' internal control, financial reporting and risk management processes on behalf of the Board of Directors. Furthermore, the committee checks all financial reports against its compliance with both the internal financial management policies and pertinent accounting standards including regulatory requirements. The Committee has given its recommendation on the appointment of Punongbayan and Araullo (P&A) as the Company's external auditors for 2009.

Composition

Corporate powers and governance of the Company is exercised by the Board of Directors which consists of seven (7) members, two (2) of whom are independent directors. As a matter of policy and based on good corporate practice, unless a special meeting is called upon for a specific purpose, the Board regularly meets every quarter wherein which the relevant corporate issues may be raised for discussion and voted by the members of the Board.

By June 2009, the stockholders have elected the following members to the Board of Directors: Domingo T. Uy, Dennis A. Uy, Jose Manuel R. Quimson, Romeo B. de Guzman, J.V. Emmanuel A. de Dios, Ricardo S. Pascua, and Monico V. Jacob.

Chairman and Chief Executive Officer

The Chairman presides at all meetings of the Board of Directors and of the stockholders. The Chairman shall have general supervision, administration and management of the business of the Corporation. The Chairman shall establish general supervision, administration and management of the business of the Corporation. The Chairman shall establish general administrative and operating policies and guidelines.

Independent Directors

As a publicly-listed Company, Phoenix Petroleum conforms to the requirement to have at least two independent directors or at least 20% of its board size, whichever is less. Of the seven directors, two sit as independent directors, Monico V. Jacob and Ricardo S. Pascua.

The Company defines an "Independent Director" as a person independent of management and free from any business or other relationship which could or could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director of the Company. The Company complies with the rules of the Securities & Exchange Commission with regard to the nomination and election of the independent director.

BOARD PERFORMANCE

Regular Board Meetings are held at least once a quarter. The Board has separate and independent access to the Corporate Secretary who, among other functions, oversees the adequate flow of information to the Board prior to meetings and serves as an adviser to the directors on their responsibilities and obligations.

Discussions during Board meetings are open, and independent views are given due consideration.

In 2009, the Board conducted five meetings. In all Board meetings, all members were present, except for one during one meeting.

With the exception of Mr. de Guzman whose term began sometime in June 2009 after he was elected to the Board, all other directors were substantially present during the meetings.

Names of Director	January 19, 2009	March 6, 2009	April 7, 2009	April 22, 2009	October 16, 2009
Domingo T. Uy	P	P	P	P	P
Dennis A. Uy	P	P	P	P	P
Jose Manuel R Quimson	P	P	P	P	P
J.V. Emmanuel A. De Dios	P	P	P	P	P
Ricardo S. Pascua	P	A	P	P	P
Monico V. Jacob	P	P	P	P	P
Romeo B. De Guzman	N/A	N/A	N/A	N/A	P

P - Present A - Absent

Committee Members

The members of each Committee are set forth in the matrix below.

	Executive Committee	Nomination Committee	Audit Committee
Domingo T. Uy	C		M
Dennis A. Uy	M		
Romeo B. De Guzman	M	M	
Jose Manuel R Quimson			
J.V. Emmanuel A. De Dios		C	M
Monico V. Jacob			C
Ricardo S. Pascua		M	

C - Chairman M - Member

ACCOUNTABILITY AND AUDIT

Independent Public Accountants

The principal accountants and external auditors of the Company is the accounting firm of Punongbayan and Araullo (P&A). Mr. Ramilito L. Nañola has been the Partner In-Charge since 2006.

The Audit Committee is empowered to independently review the integrity of the Company's financial reporting against compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements.

Phoenix Petroleum Philippines paid or accrued the following fees, including VAT, to its external auditors in the past two years.

(in Thousands PHP)	Audit & Audit-Related Fees
2009	1,276
2008	725

Punongbayan & Araullo was engaged by the Company to audit its annual financial statements.

Phoenix Petroleum Philippines' financial statements comply with Philippine Accounting Standards and Philippine Financial Reporting standards which are in compliance with International Accounting Standards (IAS).

Compliance System

Phoenix Petroleum Philippines adheres to the highest corporate principles and best practices. Socorro Ermac T. Cabreros, the Company's Corporate Secretary, is also the concurrent Acting Compliance Officer.

The responsibilities of the Compliance Officer include monitoring, identify, and controlling compliance risks; monitoring compliance between the Company and the Securities and Exchange Commission (SEC) as well as the Philippine Stock Exchange (PSE) regarding the disclosures and for whatever summons; and determining and citing violations of the Company code of ethics and recommending penalty for review and approval by the Board of Directors.

DISCLOSURE AND TRANSPARENCY

The Company complies with all disclosure requirements under the law. The most basic and all-encompassing disclosure requirement is that all material information, i.e., anything that could potentially affect share price, should be publicly disclosed in the manner provided by law. Such information would include earning results, acquisition or disposal of major assets, board changes, related party transactions, shareholdings of directors and changes to ownership.

The Corporate Secretary regularly updates the SEC and PSE on any matters that affect the stock price of the company.

The Company has a transparent ownership structure. It regularly discloses the top 20 stockholders of the common equity securities of the company. Other information disclosed includes total remuneration of all directors and senior management, corporate strategy, and off-balance sheet transactions.

The Management Team

Dennis A. Uy
President and Chief Executive Officer

Romeo B. De Guzman
Chief Operating Officer

Edgardo A. Alerta
AVP for Sales VisMin

Alberto A. Alcid
AVP for Lubes & Chemicals

Rebecca S. Caterio
AVP for Treasury

Alejandro U. Suan
Depot & Logistics Manager

Rey A. Phala
Credit & Collection Manager

Carlito V. Cruz
Commercial Sales Manager-Luzon

Francis A. Caluag
Chief Finance Officer

Manny R. Quimson
VP for Business Development & GM - Phoenix Petroterminal and Industrial Park

Chryss Alfonsus V. Damuy
Comptroller

Socorro Ermac-Cabreros
Corporate Secretary and AVP for Corporate Legal

Alan Raymond T. Zorrilla
AVP for Human Resources and Corporate Affairs

Gigi Q. Fuensalida
Asst. Corporate Secretary

Jay G. Delloso
Brand & Marketing Manager

John Henry C. Yap
Supply Manager

Management's Discussion and Analysis of Financial Conditions

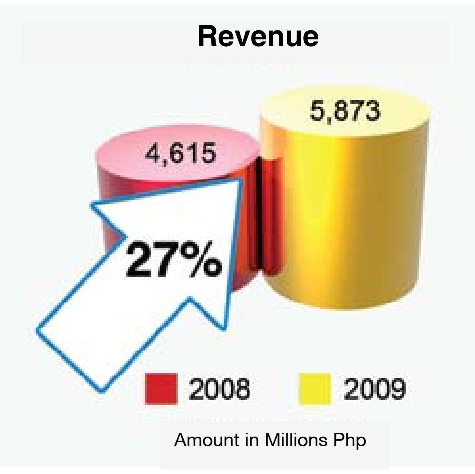
The following is a discussion and analysis of the Parent Company (PPPI) and its Subsidiaries' financial performance for the years ended December 31, 2009, 2008 and 2007. The discussion should be read in conjunction with the audited consolidated financial statements and the accompanying notes. **In the discussion of financial information, any reference to "the Company" means the Parent Company (PPPI) and its Subsidiaries.**

The selected financial information set forth in the following table has been derived from the Company's audited consolidated financial statements for the years ended December 31, 2009, 2008 and 2007.

The Company's financial statements were audited by Punongbayan & Araullo for 2009, 2008 and 2007, in accordance with Philippine Financial Reporting Standards.

	As of and for the years ended December 31		
In P thousands, except for Per Share amounts	**2007**	**2008**	**2009**
Income Statement Data:			
Revenues	2,364,232	4,615,217	5,873,051
Cost of sales	2,097,438	4,194,196	5,181,074
Net income	122,359	150,289	751,477
Balance Sheet Data:			
Current Assets	762,661	1,457,228	2,918,843
Non-current Assets	429,543	910,853	2,084,570
Total Assets	1,192,204	2,368,081	5,003,413
Total Liabilities	625,622	1,677,323	2,661,182
Stockholders' Equity	566,582	690,758	1,528,860
Earnings per Share	0.94	0.91	3.48
Book Value per Share	3.93	3.76	5.68

ANALYSIS OF RESULTS OF OPERATIONS FOR 2009 AND 2008



REVENUES

The Group generated total revenues of P5.873 million in 2009 which is 27% higher than its comparative 2008 level of P4.615 million. This was brought about by the 81% and 38% increase in sales volume of Petroleum Products and Lubricants respectively. Service revenue also posted a substantial increase triggered by the 78% increase in volume of fuels handled in year 2009.

Sales revenues from trading and distribution of petroleum products increased by 26% from P4,563 million in 2008 to P5,739 million in 2009 resulting principally from a wider distribution network and expanded institutional customer base.

VOLUME (IN '000)	2009	2008	INCREASE (DECREASE) QUANTITY	PERCENT	VOLUME IN BARREL 2009	2008
Refined Products	**201,438**	**111,388**	**90,050**	**81%**	**1,267**	**701**
DIESEL	110,162	64,066	46,096	72%	693	403
MOGAS	60,989	33,814	27,175	80%	384	213
KEROSENE	959	859	100	12%	6	5
SFO/BUNKER	17,531	11,789	5,743	49%	110	74
JET-A1	11,797	861	10,936	1271%	74	5
Lubes						
Lubricants	**2,530**	**1,831**	**698**	**38%**	**16**	**12**
Rental and Into-Plane Services:						
Storage	29,569	16,645	12,924	78%	186	105
Into-Plane	30,434	17,057	13,376	78%	191	107

In spite of the substantial increase in volume sales, the increase in absolute revenue was modest due to lower average unit selling prices this year. Current year average selling price per liter of refined petroleum products is P27.50 as compared to P38.66 per liter in 2008, or a 40.6% decline for fuels products selling prices.

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

The Group generated P101 million from its fuels service (i.e. hauling and into-plane), lease of its storage facilities, Port Revenue and other service revenue in 2009 versus P52.3 million in 2008, or a 94% increase compared to last year. In addition, the company realized P39 million in revenue which was derived from consolidating the performance of BIPC, its recently-acquired wholly-owned subsidiary.

COST AND EXPENSES

The Group recorded this year cost of sales of P5.181 million, an increase of only 24% compared to the 2008 figure of P4.194 million. The lower cost per unit offsets the 81% increase in the sales volume of petroleum products, thus the effective increase on absolute amount is not directly proportionate to the increase in sales volume.

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

NET INCOME

The Group's net income surged to P751.5 million during year 2009 compared to P150.3 million for 2008. Of this increase, P573 million represented non-recurring income due to the booking of the "excess of fair value over acquisition costs", or negative goodwill arising from the Parent Company's purchase of 100% of the capital of BIPC in March.

The Parent Company is registered with the Board of Investments on November 16, 2005 as a new industry participant with new investments in storage, marketing and distribution of petroleum products under RA 8479 (Downstream Oil Industry Regulation Act) and, as such, continues to enjoy an income tax holiday for five (5) years from November 16, 2005. It has under application and has further plans to apply for new BOI incentives based on the additional investments in capacity it has made over the past year.

ANALYSIS OF FINANCIAL CONDITION AND BALANCE SHEET ACCOUNTS

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

Total resources of the Group as of December 31, 2009 stood at P5.003 billion, an increase of 111% over the P2.368 billion as of December 31, 2008.

Cash and cash equivalents increased by 2% from P357 million to P365 million due to higher revenue level during the current year but minimized due to higher CAPEX payments.

The Group's liquidity position continued to hold strong with Current Assets reaching P2.914 billion as of December 31, 2009, up from P1.46 billion as of December 31, 2008.

Trade and other receivables increased by 79%, from P765 million as of December 31, 2008 to P1,368 million as of December 31, 2009 as a result of a higher sales revenue in this year compared to last year. The Company continues to exercise prudence in its credit policies in order to manage customer receivables risk.

Inventories increased by 194%, from P155 million as of December 31, 2008 to P458 million as of December 31, 2009 as part of the Company's inventory management strategy. In a period of rising fuel prices, it would be necessary to build commensurate levels of inventory to improve potential margins. This was made possible by the doubling of its storage capacity at the Davao Depot during the current year compared to year-end 2008. PPPI also inaugurated its new 50 million-liter terminal in Calaca, Batangas. In addition, it also leases a number of storage tanks in various sites to strengthen its inventory positioning. With the above increases in capacity PPPI was able to start gradually importing its fuel inventory requirement in 2009, which helped improve the company's stock levels and gross margin.

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

Due from related parties net balance is negative P38.7 million as of December 31, 2009 versus P16.2 million positive balances as of December 31, 2008. The Company's parent holding company extended advances to support its cash requirement for its capital expenditures.

Other current assets increased by 57%, from P37 million as of December 31, 2008 to P58 million as of December 31, 2009 due to prepayments on rentals on retail service stations and depot sites, creditable withholding tax and other various prepayments.

As of December 31, 2009, the Group's property and equipment, net of accumulated depreciation, increased to P1.699 billion compared to P881 million as of December 31, 2008 as a result of the Company's continuous expansion of retail service stations and storage facilities. The acquisition of BIPC with its substantial assets which include pier and pier facilities also boosted the fixed assets of PPPI.

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

Loans and Borrowings increased by 157% from total P904 million as of December 31, 2008 to P2.318 billion as of December 31, 2009 due the increase of P717.3 million and P697.4 million on short term and long term financing respectively. The increase in short term loans and borrowings are related to the financing of the inventory build-up and accounts receivable trade gapping. The long term portion on the other hand was the installment payable to the vendor parties in the BIPC acquisition, net of payments made and the P245 million medium-term loans availed from banks to partially finance the Company's retail network expansion and depot facilities.

Trade and other payables increased by 41%, from P750 million as of December 31, 2008 to P1,059 million as of December 31, 2009 as a result of the inventory build-up of the Company mostly using suppliers' credit. The increase in Other Payable was mostly payables to contractors and suppliers for construction of depots and retail stations.

Total Stockholders' Equity increased to P1,529 million as of December 31, 2009 from P691 million as of December 31, 2008 substantially because of the one-time booking of P573 million arising from the acquisition of BIPC plus net income from operations of P178 million during the year.

TOP FIVE (5) KEY PERFORMANCE INDICATORS

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

	2009	2008	2007
Current Ratio[1]	1.1	0.92	1.42
Debt to Equity[2]	2.27	2.43	1.10
Return on Equity[3]	71.72%	24%	32%
Net Book Value Per Share[4]	5.68	3.75	3.93
Earnings Per Share[5]	3.48	0.91	0.94

Notes:
1 - Total current assets divided by current liabilities
2 - Total liabilities divided by tangible net worth
3 - Net income divided by average total stockholders' equity
4 –Total stockholders' equity divided by the total number of shares issued and outstanding
5 – Net income after tax divided by weighted average number of outstanding common shares

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

The Company current ratio for the year ended December 31, 2008 may have been challenged as internally generated funds of the Company out of its Earnings before Interest, depreciation and amortization (EBITDA) was utilized for its continuous expansion program. This however improved a lot in 2009 with refinancing of these Capital Expenditures via medium term loan. The Financial Condition is further strengthened by the effect of the acquisition of the Batangas Industrial Park Corporation March 2009 as the property was acquired lower than its fair value.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2009, 2008 and 2007. The financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

DOMINGO T. UY
Chairman of the Board

DENNIS A. UY
President and Chief Executive Officer

FRANCIS DONALD A. CALUAG
Chief Finance Officer

Punongbayan & Araullo

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T: +63 2 886-5511
F: +63 2 886-5506
+63 2 886-5507

www.punongbayan-araullo.com

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries
(A Subsidiary of P-H-O-E-N-I-X Petroleum Holdings, Inc.)
Stella Hizon Reyes Road,
Bo. Pampanga, Davao City

We have audited the accompanying consolidated financial statements of P-H-O-E-N-I-X Petroleum Philippines, Inc. and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of comprehensive income, changes in equity and cash flow for each of the three years in the period ended December 31, 2009, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these 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 whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries as of December 31, 2009 and 2008, and of their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Ramilito L. Nañola
Partner
CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 2087618, January 4, 2010, Makati City
Partner's SEC Accreditation No. 0395-AR-1
BIR AN 08-002511-19-2009 (Sept. 16, 2009 to 2012)

Firm BOA/PRC Cert. of Reg. No. 0002
Firm SEC Accreditation No. 0002-FR-2

March 30, 2010

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
(A Subsidiary of P-H-O-E-N-I-X Petroleum Holdings, Inc.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2009 AND 2008

(Amounts in Philippine Pesos)

	Notes	2009	2008
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	**P 365,957,067**	P 357,397,359
Trade and other receivables - net	7	**1,368,763,974**	765,217,736
Inventories	8	**457,924,415**	155,966,344
Land held for sale and land development costs	9	**533,545,205**	-
Due from related parties	24	**14,421,693**	16,240,705
Restricted deposits	10	**58,899,604**	80,640,980
Input value-added tax		**66,993,093**	44,411,280
Other current assets	11	**52,337,797**	37,353,377
Total Current Assets		**2,918,842,848**	1,457,227,781
NON-CURRENT ASSETS			
Land held for future development	13	**315,874,750**	-
Property and equipment - net	12	**1,699,955,777**	881,346,333
Deferred tax assets	23	**17,213,693**	10,650,027
Other non-current assets	14	**51,525,874**	18,856,720
Total Non-current Assets		**2,084,570,094**	910,853,080
TOTAL ASSETS		**P 5,003,412,942**	P 2,368,080,861

Continued on next page

	Notes	2009	2008
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Loans and borrowings	15	**P 1,548,806,973**	P 831,478,373
Trade and other payables	16	**1,059,260,639**	750,441,962
Due to parent company	24	**53,114,682**	-
Total Current Liabilities		**2,661,182,294**	1,581,920,335
NON-CURRENT LIABILITIES			
Loans and borrowings	15	**769,650,760**	72,297,113
Other non-current liabilities	17	**43,720,366**	23,105,550
Total Non-current Liabilities		**813,371,126**	95,402,663
Total Liabilities		**3,474,553,420**	1,677,322,998
EQUITY	25		
Capital stock		**269,160,875**	188,000,198
Additional paid-in capital		**261,614,249**	227,114,249
Deposits on future stock subscriptions		**44,625,000**	-
Treasury shares		**(17,252,140)**	(17,252,140)
Retained earnings		**970,711,538**	292,895,556
Total Equity		**1,528,859,522**	690,757,863
TOTAL LIABILITIES AND EQUITY		**P 5,003,412,942**	P 2,368,080,861

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
(A Subsidiary of P-H-O-E-N-I-X Petroleum Holdings, Inc.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Philippine Pesos)

	Notes	**2009**	2008	2007
REVENUES				
Sale of goods - net		**P 5,738,602,943**	P 4,562,905,713	P 2,315,981,493
Fuel service, storage income and other revenues		**134,448,520**	52,311,246	48,250,811
		5,873,051,463	4,615,216,959	2,364,232,304
COST AND EXPENSES				
Cost of sales and services	18	**5,181,073,940**	4,194,195,752	2,097,437,575
Selling and administrative expenses	19	**408,221,526**	255,821,298	156,531,497
		5,589,295,466	4,450,017,050	2,253,969,072
OTHER INCOME (CHARGES)				
Excess of fair value of net assets acquired over acquisition cost	29	**573,389,348**	-	-
Finance costs		**(114,569,133)**	(46,050,530)	(8,701,202)
Finance income		**5,021,908**	25,328,030	12,584,885
Others		**259,222**	(19,978)	-
		464,101,345	(20,742,478)	3,883,683
PROFIT BEFORE TAX AND PRE-ACQUISITION LOSS (PROFIT)		**747,857,342**	144,457,431	114,146,915
PRE-ACQUISITION PROFIT (LOSS)		**(965,075)**	-	3,861,745
PROFIT BEFORE TAX		**746,892,267**	144,457,431	118,008,660
TAX INCOME	23	**4,584,392**	5,831,307	4,350,106
NET PROFIT	26	**751,476,659**	150,288,738	122,358,766
OTHER COMPREHENSIVE INCOME		-	-	-
TOTAL COMPREHENSIVE INCOME		**P 751,476,659**	P 150,288,738	P 122,358,766
Earnings per share	26	**P 3.48**	P 0.91	P 0.95

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
(A Subsidiary of P-H-O-E-N-I-X Petroleum Holdings, Inc.)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	**2009**	2008	2007
CAPITAL STOCK	25			
Balance at beginning of year		**P 188,000,198**	P 145,000,000	P 116,000,000
Stock dividends		**73,660,677**	43,000,198	-
Issuance during the year		**7,500,000**	-	29,000,000
Balance at end of year		**269,160,875**	188,000,198	145,000,000
ADDITIONAL PAID-IN CAPITAL	25			
Balance at beginning of year		**227,114,249**	227,114,249	-
Additions		**34,500,000**	-	227,114,249
Balance at end of year		**261,614,249**	227,114,249	227,114,249
DEPOSITS ON FUTURE STOCK SUBSCRIPTIONS	25	**44,625,000**	-	-
TREASURY SHARES - At Cost	25			
Balance at beginning of year		**(17,252,140)**	(5,639,300)	-
Purchases during the year		**-**	(11,612,840)	(5,639,300)
Balance at end of year		**(17,252,140)**	(17,252,140)	(5,639,300)
RETAINED EARNINGS				
Balance at beginning of year		**292,895,556**	200,107,018	77,748,252
Net profit		**751,476,659**	150,288,738	122,358,766
Stock dividends	25	**(73,660,677)**	(43,000,198)	-
Cash dividends	25	**-**	(14,500,002)	-
Balance at end of year		**970,711,538**	292,895,556	200,107,018
TOTAL EQUITY		**P 1,528,859,522**	P 690,757,863	P 566,581,967

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
(A Subsidiary of P-H-O-E-N-I-X Petroleum Holdings, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Philippine Pesos)

	Notes	**2009**	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 746,892,267**	P 144,457,431	P 118,008,660
Adjustments for:				
Excess of fair value of net assets acquired over acquisition cost	29	**(573,389,348)**	-	-
Interest expense		**114,569,133**	46,050,530	8,701,202
Depreciation and amortization	12	**77,254,700**	58,801,456	32,740,544
Interest income		**(5,021,908)**	(25,328,030)	(12,584,885)
Impairment losses		**1,190,410**	-	-
Operating income before working capital changes		**361,495,254**	223,981,387	146,865,521
Increase in trade and other receivables		**(604,736,648)**	(404,153,491)	(152,883,692)
Decrease (increase) in inventories		**(301,958,071)**	22,093,215	(134,517,047)
Decrease (increase) in restricted deposits		**21,741,376**	(35,889,160)	(30,566,588)
Increase in input value-added tax		**(22,865,192)**	(21,326,881)	-
Increase in other current assets		**(14,984,420)**	(31,429,929)	(28,264,803)
Increase in land held for sale and land development costs		**(222,674,997)**	-	-
Increase in trade and other payables		**308,818,677**	581,010,869	676,682
Cash generated from (used in) operations		**(475,164,021)**	334,286,010	(198,689,927)
Cash paid for income taxes		**(1,695,895)**	(4,926)	(1,682)
Net Cash From (Used in) Operating Activities		**(476,859,916)**	334,281,084	(198,691,609)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	12	**(719,124,499)**	(526,444,394)	(238,329,682)
Increase in land held for future development		**(230,095,255)**	-	-
Net increase in other non-current assets		**(32,669,154)**	(7,830,721)	(10,566,769)
Interest received		**5,021,908**	25,328,030	12,584,885
Collections from related parties		**2,937,730**	53,445,979	184,045,145
Decrease in due from related parties		**(1,118,718)**	(34,087,608)	(163,909,858)
Net Cash Used in Investing Activities		**(975,047,988)**	(489,588,714)	(216,176,279)

Continued on next page

	Notes	**2009**	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in loans and borrowings		**1,414,682,247**	453,287,788	190,743,944
Interest paid		**(114,569,133)**	(46,050,530)	(8,701,202)
Borrowings from related parties	24	**53,114,682**	-	-
Proceeds from deposits on future stocks subscriptions	25	**44,625,000**	-	-
Increase in additional paid-in capital	25	**34,500,000**	-	227,114,249
Increase in non-current liabilities		**20,614,816**	17,401,800	5,703,750
Proceeds from issuance of shares of stock	25	**7,500,000**	-	29,000,000
Payments of cash dividends	25	**-**	(14,500,002)	-
Increase in treasury shares	25	**-**	(11,612,840)	(5,639,300)
Repayments of due to related parties		**-**	-	(140,200)
Net Cash From Financing Activities		**1,460,467,612**	398,526,216	438,081,241
NET INCREASE IN CASH AND CASH EQUIVALENTS		**8,559,708**	243,218,586	23,213,353
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6	**357,397,359**	114,178,773	90,965,420
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	**P 365,957,067**	P 357,397,359	P 114,178,773

Supplemental Information on Non-Cash Investing and Financing Activities

In 2009 and 2008, the Group declared and distributed stock dividends amounting to P73.6 million and P43.0 million, respectively (see Note 25).

In 2007, the Group acquired land amounting to P134.9 million through installment. The outstanding installment payable as of December 31, 2008 and 2007 amounted to P82.6 million and P114.7 million, respectively (see Note 15).

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009, 2008 AND 2007

(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 53% and 54% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines, as of December 31, 2009 and 2008, respectively.

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

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

The ultimate parent of the Group is the Udenna Corporation, which was primarily organized to purchase, acquire, take over and manage all or any parts of the rights, assets, business and property, undertake and assume all the liabilities of others. 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 120 service stations, including 20 service stations in Luzon, one in Visayas and 99 in Mindanao operating as of December 31, 2009 and there are a total of 28 service stations under construction as of December 31, 2009.

The Parent Company holds 100% interest in the following subsidiaries:

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

In March 2009, the Parent Company acquired 100% ownership of BIPC. All the subsidiaries were organized and incorporated in the Philippines.

PPC was created to conduct and carry on the business of manufacturing, processing, trading and delivery of petroleum and other chemical products and to engage in the business of operating oil depots and storage facilities. PPC was registered with the Securities and Exchange Commission (SEC) on March 26, 2007 and has not started commercial operations.

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 is currently 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 was registered with the SEC on July 31, 2006.

PSC was created primarily to engage in providing hauling, trucking services, and other logistics services. PSC was registered with the SEC on January 31, 2007 and started commercial operations in 2008.

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

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.

PPC, PPMI and PSC's registered office, which is also their principal place of business, is located at Penthouse, Valero Tower, 122 Valero Street, Salcedo Village, Makati City.

BIPC's registered office which is also its principal place of business is located at 4th Floor, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

The financial statements of the Parent Company and Subsidiaries (the Group) for the year ended December 31, 2009 (including the comparatives for the years ended December 31, 2008 and 2007) were authorized for issue by the Group's President and Chief Executive Officer on March 30, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared on the historical cost basis. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2009 that are Relevant to the Group

In 2009, the Group adopted the following new revisions and amendments to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2009:

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures
PFRS 1 and PAS 27 (Amendments)	:	PFRS 1 – First Time Adoption of PFRS and PAS 27 – Consolidated and Separate Financial Statements
PFRS 8	:	Operating Segments
Various Standards	:	2008 Annual Improvements to PFRS

Discussed in the succeeding pages are the effects on the financial statements of the new and amended standards.

(i) PAS 1 (Revised 2007), *Presentation of Financial Statements*, requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate statement of income and a statement of comprehensive income. Income and expense recognized in profit or loss is presented in the statement of income in the same way as the previous version of PAS 1. The statement of comprehensive income includes the profit or loss for the period and each component of income and expense recognized outside of profit or loss or the "non-owner changes in equity," which are no longer allowed to be presented in the statements of changes in equity, classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). A statement showing an entity's financial position at the beginning of the previous period is also required when the entity retrospectively applies an accounting policy or makes a retrospective restatement, or when it reclassifies items in its financial statements.

The Group's adoption of PAS 1 (Revised 2007) did not result in any material adjustments in its financial statements as the change in accounting policy only affects presentation aspects. The Group has elected to present a single statement of comprehensive income (see Note 2.1).

(ii) PAS 23 (Revised 2007), *Borrowing Costs.* Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. The adoption of this new standard did not have any significant effect on the 2009 financial statements, as well as for prior periods, as the Group's existing accounting policy is to capitalize all interest directly related to qualifying assets.

(iii) PFRS 1 (Amendment), *First-time Adoption of PFRS and PAS 27* (Amendment), *Consolidated and Separate Financial Statements* (effective from January 1, 2009). The amended standards allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from PAS 27, and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment has no significant impact on the consolidated financial statements.

(iv) PFRS 7 (Amendment), *Financial Instruments Disclosures*. The amendments require additional disclosures for financial instruments that are measured at fair value in the statement of financial position. These fair value measurements are categorized into a three-level fair value hierarchy, which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows. The change in accounting policy only results in additional disclosures (see Note 5.2).

(v) PFRS 8, *Operating Segments,* (effective from January 1, 2009). Under this new standard, a reportable operating segment is identified based on the information about the components of the entity that management uses to make decisions about operating matters. In addition, segment assets, liabilities and performance, as well as certain disclosures, are to be measured and presented based on the internal reports prepared for and reviewed by the chief decision makers. The Group identifies operating segments and reports on segment assets, liabilities and performance based on internal management reports therefore, adoption of this new standard did not have a material impact on the Group's financial statements as it merely improved the disclosure of operating segments.

(vi) 2008 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to Philippine Financial Reporting Standards 2008* which became effective for the annual periods beginning on or after January 1, 2009. Among those improvements, the following are the amendments relevant to the Group.

- PAS 1 (Amendment), *Presentation of Financial Statements.* The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. Presently, the Group has no held for trading financial assets, hence, this amendment had no impact on the Group's 2009 financial statements.

- PAS 23 (Amendment), *Borrowing Costs.* The amendment clarifies the definition of borrowing costs to include interest expense determined using the effective interest method under PAS 39. This amendment had no significant effect on the 2009 financial statements.

- PAS 27 (Amendment), *Consolidated and Separate Financial Statement*. When an entity prepares separate financial statements and accounts for investments in subsidiaries, jointly controlled entities and associates in accordance with PAS 39 (rather than at cost), such investments will continue to be measured using PAS 39 even if classified as held for sale in accordance with PFRS 5. Investment measured at cost will continue to be re-measured in accordance with PFRS 5 when classified as held for sale. The amendment has no significant impact in the Group's financial statements.

• PAS 36 (Amendment), *Impairment of Assets*. Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. Appropriate disclosures were made in the Group's 2009 financial statements.

• PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement*. The definition of financial asset or financial liability at fair value through profit or loss as it related to items that are held for trading was changed. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The Group determined that adoption of this amendment had no material effect on its 2009 financial statements.

• PFRS 5 (Amendment), *Non-current Assets Held-for-Sale and Discontinued Operations*. The amendment clarifies that all the assets and liabilities of a subsidiary should be classified as held for sale if the entity is committed to a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The amendment has no significant impact in the Group's financial statements.

(b) Effective in 2009 but not Relevant to the Group

The following amendment and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2009 but are not relevant to the Group's financial statements:

PFRS 2 (Amendment)	:	Share-based Payment
Philippine Interpretations International Financial Reporting Interpretations Committee (IFRIC) 13	:	Customer Loyalty Programme
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation

(c) Effective Subsequent to 2009

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2009. Among those, management has initially determined the following, which the Group will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) PAS 27 (Revised), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The Group will apply this revised standard prospectively from January 1, 2010 to all transactions with non-controlling interests. The amendment has no significant impact on the Group's financial statements.

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

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

(iv) Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers* (effective from July 1, 2009). This interpretation provides guidance on how to account for items of property, plant and equipment received from customers; or cash that is received and used to acquire or construct specific assets. It is only applicable to agreements in which an entity receives from a customer such assets that the entity must either use to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. Management does not anticipate the adoption of the interpretation to have material impact on its financial statements.

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

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

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

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

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

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

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

• PAS 1 (Amendment), *Presentation of Financial Statements* (effective from January 1, 2010). The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. The Group will apply the amendment in its 2010 financial statements but expects to have no material impact in the Group's financial statements.

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

• PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. Management has initially determined that this will not have material impact on the consolidated financial statements since the Group does not enter into a lease agreement that includes both land and building.

• PAS 18 (Amendment), *Revenue* (effective from January 1, 2010). The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Management will apply this amendment prospectively in its 2010 financial statements and has initially determined that this will not have material impact on the consolidated financial statements.

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

• PFRS 8 (Amendment), *Operating Segments* (effective from January 1, 2010). It clarifies that a measure of segment assets should be disclosed only if the amount is regularly provided to the chief operating decision maker (CODM). The Group reports total assets for each of its reportable segments as they are regularly provided to the CODM; hence, does not expect any significant effect on the Group's segment reporting.

• PFRS 9, *Financial Instruments.* The FRSC is yet to adopt International Financial Reporting Standards (IFRS) 9, Financial Instruments as of the financial report date. With IFRS 9, which will become effective for annual periods beginning January 1, 2013, the IASB aims to replace IAS 39 (PAS 39 in the Philippines), *Financial Instruments: Recognition and Measurement*, in its entirety by the end of 2010. IFRS 9 is the first part of Phase 1 of this project.

The main phases are (with a separate project dealing with derecognition):

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

IFRS 9 introduces major simplifications of the classification and measurement provisions under IAS 9. These include reduction from four measurement categories into two categories, i.e. fair value and amortized cost, and from several impairment methods into one method.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, it does not expect to implement the amendments until all chapters of the PAS 39 replacement have been published at which time the Group expects it can comprehensively assess the impact of the revised standard.

2.3 Basis of Consolidation

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

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

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

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

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

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

Goodwill (positive) represents the excess of acquisition cost over the Group's share in the fair value of the identifiable net assets of the acquired subsidiaries at the date of acquisition (see Note 14). Negative goodwill represents the excess of Parent Company's share in the fair value of identifiable net assets of the subsidiaries at date of acquisition over acquisition cost (see Note 29).

2.4 Financial Assets

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

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

A more detailed description of the loans and receivable category of financial assets which is relevant to the Group is 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 classfied as non-current assets. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

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

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

2.5 Inventories

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

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

2.6 Land Held for Sale and Land Development Costs

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

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

2.7 Property and Equipment

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

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

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

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

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction 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. In 2009, the estimated useful lives of buildings, depot and pier facilities and gasoline station and equipment were revised from 5 to 15 years to 5 to 25 years and 1 to 3 years to 1 to 5 years, respectively, to reflect the appropriate useful lives based on management's assessment.

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

2.8 Land Held for Future Development

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

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

2.9 Financial Liabilities

Financial liabilities include loans and borrowings, trade and other payables, due to parent company and security deposits (presented under Other Non-Current Liabilities in the consolidated statements of financial position) which are measured at amortized cost using the effective interest method.

Financial liabilities are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as part of Finance Costs in the consolidated statement of comprehensive income.

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

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

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

2.10 Provisions

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

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

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

2.11 Business Combinations

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

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

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

2.12 Revenue and Expense Recognition

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

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

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

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

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

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

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

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

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

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

2.13 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

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

(b) Group as Lessor

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

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

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.14 Foreign Currency Transactions

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

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

2.15 Impairment of Non-Financial Assets

The Group's property and equipment, investment in subsidiaries and goodwill are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

2.16 Employee Benefits

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

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

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

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

2.17 Borrowing Costs

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

2.18 Income Taxes

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

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

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

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

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

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

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

2.19 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 as disclosed in the consolidated statement of comprehensive income.

2.20 Basic Earnings per Share

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Operating and Finance Leases

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

(b) Provisions and Contingencies

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

(c) Estimating Development Costs

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

3.2 Key Sources of Estimation Uncertainty

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

(a) Allowance for Impairment of Trade and Other Receivables

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

The carrying value of trade and other receivables amounted to P1.4 billion and P765.2 million as at December 31, 2009 and 2008, respectively (see Note 7). Impairment losses on trade and other receivables in 2009 amounted to P1.2 million and is presented as part of miscellaneous expense account (under Selling and Administrative Expenses account in the consolidated statement of comprehensive income - see Note 19). There were no impairment loses recognized in 2008 and 2007.

(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. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories (P457.9 million and P156.0 million as at December 31, 2009 and 2008, respectively, as presented in Note 8) is affected by price changes. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

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

In determining the net realizable value of land held for sale and land development costs and land held for future development, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amounts of land held for sale and development costs (P533.5 million as of December 31, 2009 – see Note 9) and land held for future development (P315.9 million as at December 31, 2009 – see Note 13) is affected by price changes in different market segments. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments within the next financial year.

(d) Useful Lives of Property and Equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analyzed in Note 12. As of December 31, 2009, the estimated useful lives of certain property and equipment have to be changed to reflect the appropriate useful lives based on management's assessment. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Impairment of Non-Financial Assets

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

The management has assessed that there are no impairment losses to be provided in 2009, 2008 and 2007.

(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, 2009 and 2008 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 included for land development are presented as part of trade payables under Trade and Other Payables account in the consolidated statements of financial position amounted to P0.8 million as of December 31, 2009 and 2008, 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 20 and include, among others, discount rates and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit obligation amounted to P4.2 million and P3.0 million as of December 31, 2009 and 2008, respectively (see Note 20.2).

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

4.1 Market Risk

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

(a) Foreign Currency Sensitivity

The Group has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency.

(b) Interest Rate Sensitivity

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowing interest rates range from 7.16% to 10.25% per annum. At December 31, 2009 and 2008, the Group is exposed to changes in market interest rates through its cash and cash equivalents and bank borrowings, which are subject to variable interest rates (see Notes 6 and 15). All other financial assets and liabilities have fixed rates.

The following table illustrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates of +/- 1.82%, +/- 1.90% and +/-1.80% in 2009, 2008 and 2007, respectively. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	2009		2008		2007	
	+ 182/ 88	**- 182/ 88**	+190/ 90	-190/ 90	+180/80	-180/80
Profit before tax	**(P 34,489,575)**	**P 34,489,575**	(P 7,395,332)	P 7,395,355	(P 3,503,095)	P 3,503,095

4.2 Credit Risk

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

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

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

	Notes	2009	2008
Cash and cash equivalents (excluding cash on hand)	6	**P 363,705,435**	P 356,042,309
Trade and other receivables - net	7	**1,368,763,974**	765,217,736
Due from related parties	24.2	**14,421,693**	16,240,705
Restricted deposits	10, 14	**60,079,767**	80,640,980
Refundable rent deposits	14	**39,033,405**	7,277,348
		P 1,846,004,274	P 1,225,419,078

As part of the Group policy, bank deposits are only maintained with reputable financial institutions.

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

(a) Cash and cash equivalents

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

As part of the Group's policy, bank deposits are only maintained with reputable financial institutions. For the determination of credit risk, cash do not include cash on hand amounting to P2,251,633 in 2009 and P1,355,050 in 2008 (see Note 6). Cash in banks, which are insured by the Philippine Deposit Insurance Corporation up to maximum coverage of P500,000 per depositor per banking institution, as provided for under Republic Act (RA) 9302, *Charter of Philippine Deposit Insurance Corporation*, are still subject to credit risk.

(b) Trade and other receivables

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

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

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

	2009	2008
Not more than one month	**P 145,052,920**	P 64,495,128
More than one month but not more than two months	**42,659,470**	17,941,554
More than two months but not more than six months	**-**	93,364,606
More than six months but not more than one year	**92,772,329**	-
More than one year	**21,025,414**	-
	P 301,510,133	P 175,801,288

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, 2009, 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
Loans and borrowings	P 1,585,580,604	P 4,825,314	P 908,901,613
Trade and other payables	1,022,823,128	36,437,511	-
Due to a related party	53,114,682	-	-
Security deposits	-	-	35,598,063
	P 2,661,518,414	**P 41,262,825**	**P 944,499,676**

This compares to the maturity of the Group's financial liabilities as of December 31, 2008 as follows:

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 3 years
Loans and borrowings	P 819,491,691	P 14,830,542	P 72,297,113
Trade and other payables	750,441,962	-	-
Security deposits	-	-	16,190,545
	P 1,569,933,653	**P 14,830,542**	**P 88,487,658**

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

5. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

5.1 Comparison of Carrying Amounts and Fair Values

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

	Notes	**2009**		2008	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	6	**P 365,957,067**	**P 365,957,067**	P 357,397,359	P 357,397,359
Trade and other receivables	7	**1,368,763,974**	**1,368,763,974**	765,217,736	765,217,736
Due from related parties	24.2	**14,421,693**	**14,421,693**	16,240,705	16,240,705
Restricted deposits	10, 14	**60,079,767**	**60,079,767**	80,640,980	80,640,980
Refundable rent deposits	14	**39,033,405**	**39,033,405**	7,277,348	7,277,348
		P 1,848,255,906	**P 1,848,255,906**	P 1,226,774,128	P 1,226,774,128
Financial Liabilities					
Financial liabilities at amortized cost:					
Loans and borrowings	15	**P 2,318,457,733**	**P 2,318,457,733**	P 903,775,486	P 903,775,486
Trade and other payables	16	**1,059,260,639**	**1,059,260,639**	750,441,962	750,441,962
Due to parent company	24.2	**53,114,682**	**53,114,682**	-	-
Security deposits	17	**34,750,000**	**34,750,000**	16,190,545	16,190,545
		P 3,465,583,054	**P 3,465,583,054**	P 1,670,407,993	P 1,670,407,993

5.2 Fair Value Hierarchy

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

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

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (as prices) or indirectly (derived from prices); and,

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

As of December 31, 2009 and 2008, the Group has no financial assets and liabilities measured at fair value in the consolidated statements of financial position.

The costs and fair values of those financial assets and liabilities not presented in the consolidated statements of financial position at their fair values are summarized in Note 5.1.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2009	2008
Cash in banks	**P 348,148,556**	P 296,025,781
Short-term placements	**15,556,879**	60,016,528
Cash on hand	**2,251,632**	1,355,050
	P 365,957,067	P 357,397,359

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have maturity ranging from seven to 90 days and earn effective interest ranging from 2.1% to 4.8% per annum in 2009 and 2008.

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	2009	2008
Trade receivables	**P 946,088,436**	P 556,234,756
Advances to suppliers	**358,631,703**	159,453,618
Non-trade receivables	**41,626,594**	35,284,040
Other receivables	**22,648,816**	14,245,322
	1,368,995,549	765,217,736
Allowance for impairment	**(231,575)**	-
	P 1,368,763,974	P 765,217,736

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade and other receivables amounting to P958,835 as of December 31, 2009, which are mostly due from the small business customers, were found to be uncollectible, hence, such were written off.

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

8. INVENTORIES

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

	Note	**2009**	2008
Fuel		**P 318,469,705**	P 71,736,100
Lubricants		**139,454,710**	84,230,244
	18.1	**P 457,924,415**	P 155,966,344

Under the terms of agreements covering the liabilities under trust receipts, certain inventories have been released to the Group in trust for the bank. The Group is accountable to the bank for the trusteed inventories or their sales proceeds (see Note 15.1).

9. LAND HELD FOR SALE AND LAND DEVELOPMENT COSTS

The land held for sale and land development costs relate to the following as of December 31, 2009:

Land held for sale	P 512,156,885
Land development costs	21,388,320
	P 533,545,205

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

10. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various banking credit facilities covered by hold-out agreements (see Note 15.1). As such, these are restricted as to withdrawals. The proceeds from availment of these banking credit facilities by the Group are used for the purpose of purchasing fuel and lubricant supplies. Interest rates for this type of deposit ranges from 3.125% to 5.975% per annum in 2009 and 2008.

11. OTHER CURRENT ASSETS

The composition of this account as of December 31 is shown below:

	2009	2008
Prepayments	**P 44,756,747**	P 34,089,582
Creditable withholding tax	**5,811,092**	807,189
Supplies	**-**	1,795,851
Others	**1,769,958**	660,755
	P 52,337,797	P 37,353,377

12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2009 and 2008 are shown below:

	Buildings, Depot and Pier Facilities	Leasehold and Land Improvements	Gasoline Station Equipment	Office Furniture and Equipment	Hauling and Heavy Equipment	Transportation and Other Equipment	Land	Construction in Progress	Total
December 31, 2009									
Cost	P 525,672,250	P 33,410,156	P 315,521,430	P 56,301,766	P 154,156,153	P 63,890,069	P 164,684,194	P 585,390,519	P 1,899,026,537
Accumulated depreciation and amortization	(37,100,755)	(10,056,853)	(57,757,466)	(20,229,811)	(49,083,920)	(24,841,955)	-	-	(199,070,760)
Net carrying amount	**P 488,571,495**	**P 23,353,303**	**P 257,763,964**	**P 36,071,955**	**P 105,072,233**	**P 39,048,114**	**P 164,684,194**	**P 585,390,519**	**P 1,699,955,777**
December 31, 2008									
Cost	P 74,228,994	P 20,067,069	P 249,002,393	P 44,393,068	P 103,229,136	P 40,607,337	P 134,853,747	P 338,399,426	P 1,004,781,170
Accumulated depreciation and amortization	(18,757,638)	(7,491,121)	(39,307,495)	(17,042,195)	(27,420,428)	(13,415,960)	-	-	(123,434,837)
Net carrying amount	P 55,741,356	P 12,575,948	P 209,694,898	P 27,350,873	P 75,808,708	P 27,191,377	P 134,853,747	P 338,399,426	P 881,346,333
January 1, 2008									
Cost	P 51,041,187	P 17,725,994	P 62,402,292	P 38,398,506	P 57,914,015	P 30,236,670	P 134,853,747	P 85,764,365	P 478,336,776
Accumulated depreciation and amortization	(12,786,673)	(3,961,868)	(17,199,262)	(12,310,756)	(12,017,482)	(6,357,340)	-	-	(64,633,381)
Net carrying amount	P 38,254,514	P 13,764,126	P 45,203,030	P 26,087,750	P 45,896,533	P 23,879,330	P 134,853,747	P 85,764,365	P 413,703,395

A reconciliation of the carrying amounts at the beginning and end of 2009 and 2008 of property and equipment is shown below:

	Buildings, Depot and Pier Facilities	**Leasehold and Land Improve-ments**	**Gasoline Station Equipment**	**Office Furniture and Equip-ment**	**Hauling and Heavy Equipment**	**Transporta-tion and Other Equipment**	**Land**	**Construction in Progress**	**Total**
Balance at Jan. 1, 2009, net of accumulated deprecia-tion and amortization	P 55,474,356	P 12,575,948	P 209,694,898	P 27,350,873	P 75,808,708	P 27,191,377	P 134,853,747	P 338,399,426	P 881,346,333
Additions	342,884,381	13,343,087	66,519,037	13,644,641	50,927,017	23,282,732	29,830,447	355,549,968	895,981,310
Transfers	108,558,875	-	-	-	-	-	-	(108,558,875)	-
Cost of asset disposed	-	-	-	(1,735,943)	-	-	-	-	(1,735,943)
Accumulated depreciation of asset disposed	-	-	-	1,618,777	-	-	-	-	1,618,777
Depreciation and amortization charges for the year	(18,343,117)	(2,565,732)	(18,449,971)	(4,806,393)	(21,663,492)	(11,425,995)	-	-	(77,254,700)
Balance at Dec. 31, 2009, net of accumulated deprecia-tion and amortization	**P 488,571,495**	**P 23,353,303**	**P 257,763,964**	**P 36,071,955**	**P 105,072,233**	**P 39,048,114**	**P 164,684,194**	**P 585,390,519**	**P 1,699,955,777**
Balance at Jan. 1, 2008, net of accumulated deprecia-tion and amortization	P 38,254,514	P 13,764,126	P 45,203,030	P 26,087,750	P 45,896,533	P 23,879,330	P 134,853,747	P 85,764,365	P 413,703,395
Additions	23,187,807	2,341,075	132,265,622	5,994,562	445,315,121	10,370,667	-	306,969,540	526,444,394
Transfers	-	-	54,334,479	-	-	-	-	(54,334,479)	-
Depreciation and amortiza-tion charges for the year	(5,970,965)	(3,529,253)	(22,108,233)	(4,731,439)	(15,402,946)	(7,058,620)	-	-	(58,801,456)
Balance at Dec. 31, 2008, net of accumulated deprecia-tion and amortization	P 55,741,356	P 12,575,948	P 209,694,898	P 27,350,873	P 75,808,708	P 27,191,377	P 134,853,747	P 338,399,426	P 881,346,333

Construction in progress pertains to accumulated costs incurred on the various depot facilities being constructed as part of the Group's expansion program, including capitalized borrowing costs of P37.7 million and P9.13 million in 2009 and 2008, respectively, representing the actual borrowing costs incurred on borrowings obtained to fund the construction project.

Certain properties with an aggregate carrying value of P30,656,433 and P5,522,405 as of December 31, 2009 and 2008, respectively, are mortgaged with local banks (see Notes 15.3 and 15.4).

In 2009, the estimated useful lives of certain property and equipment were revised which caused the decrease of the depreciation expense from P85,708,907 to P77,254,700.

The amount of depreciation is allocated as follows:

	Notes		**2009**		2008
Cost of services	18.2	**P**	**9,200,153**	P	-
Selling and administrative expenses			**68,054,547**		58,801,456
	19	**P**	**77,254,700**	P	58,801,456

13. LAND HELD FOR FUTURE DEVELOPMENT

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

Certain land with carrying value of P22.1 million as of December 31, 2009 are used as collaterals for certain interest-bearing loans and borrowings (see Note 15.3).

14. OTHER NON-CURRENT ASSETS

The composition of this account as of December 31 is shown below:

		2009		2008
Refundable rent deposits	**P**	**39,033,405**	P	7,277,348
Goodwill		**9,344,134**		9,344,134
Restricted time deposits		**1,180,163**		-
Deferred minimum lease payments		**939,388**		2,229,880
Others		**1,028,784**		5,358
	P	**51,525,874**	P	18,856,720

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

Goodwill amounting to P9.3 million represents the excess of acquisition cost over the Group's share in the fair value of identifiable net assets of the acquired subsidiaries at the date of the acquisition.

Restricted time deposits represent cash deposited with a local bank as an environmental trust fund set aside in compliance with the requirements of the Department of Environment and Natural Resources.

15. LOANS AND BORROWINGS

This account consists of the following as of December 31:

	2009	2008
Current:		
Liabilities under trust receipts and letters of credits	**P 1,394,432,784**	P 732,177,470
Installment and notes payable	**151,179,007**	97,147,890
Mortgage payable	**3,195,182**	2,153,013
	P 1,548,806,973	P 831,478,373
Non-current:		
Installment and notes payable	**P 758,098,335**	P 69,937,865
Mortgage payable	**11,552,425**	2,359,248
	P 769,650,760	P 72,297,113

15.1 Liabilities Under Letters of Credits and Trust Receipts

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

Interest expense for 2009, 2008 and 2007 amounted to P111,126,617, P33,559,798 and P6,246,974, respectively, and are presented as part of Finance Costs in the consolidated statements of comprehensive income.

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

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

15.2 Credit Line

The Company has an available credit line of P3.20 billion and P1.19 billion under LC and TR, respectively. These lines obtained from various banks are being utilized by the Company for procurement of inventories both local and foreign.

15.3 Installment and Notes Payable

The installment payable in 2009 includes borrowings from a local bank and liability to PHINMA Group for the purchase of the 100% shares of stocks of BIPC (see Note 29). The installment payable bears interest at Philippine Dealing System Treasury-Fixing (PDST-F) rate plus three percent. Such is payable monthly starting on the seventh month from the date of signing of the agreement on March 10, 2009 until March 15, 2014.

On December 18, 2009, the Group's loan application with Land Bank of the Philippines (LBP) amounting to P580.0 million was approved. Of the total loan approved, P490.0 million was intended to refinance the Group's installment payable with 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 above-mentioned liabilities are secured by certain industrial lots presented under land held for future development (see Note 13).

The installment payable in 2008 represents the Group's liability to BIPC prior to the Group's acquisition of the 100% interest in BIPC in March 2009 and to a certain individual arising from the acquisition of land (see Note 12). The following are the provisions indicated in the contract to sell entered by the Group and BIPC:

(a) The installment payable shall earn an interest at the rate to set quarterly based on the PDST-F on the day of setting plus 3% per annum and are payable monthly until March 1, 2012.

(b) The Group will be charged 2% as penalty on delayed installments computed from the due date until full payment is made. However, if the delay in the installments due is more than 120 days from and after the due date, BIPC may at its option, elect to extra-judicially rescind the contract by written notice to the Group and without need of judicial intervention in which case BIPC shall have the right to retain 50% of the downpayment and any other payment made as liquidated damages for non-payment. Also, all improvements introduced by the Group on the land shall become properties of BIPC. This installment payable was preterminated in March 2009.

(c) The Deed of Absolute Sale shall be executed and ownership of the land shall be transferred to the Group only upon full payment of installment payable, effectively using the land as security for the liability. The installment payable was fully paid in March 2009.

15.4 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).

16. TRADE AND OTHER PAYABLES

This account consists of:

	2009	2008
Trade payables	**P 970,629,295**	P 690,398,533
Accrued expenses	**53,181,430**	54,924,248
Advances from locators	**20,120,000**	-
Others	**15,329,914**	5,119,181
	P 1,059,260,639	P 750,441,962

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 advances from locators as of December 31, 2009 include P20.1 million option money from a certain locator. The said locator has the right and option to purchase subject properties under the terms and condition agreed by the said locator and the Group. However, in the event that the said locator does not exercise its right to purchase the subject properties, the option money shall be refunded to the said locator plus interest at the rate equivalent to the prevailing treasury bill rate plus 2% per annum.

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

17. OTHER NON-CURRENT LIABILITIES

This account consists of:

	Note	2009	2008
Security deposits		**P 34,750,000**	P 16,190,545
Retirement benefit obligation	20.2	**4,245,935**	2,970,928
Unearned rent		**3,944,044**	3,944,077
Others		**780,387**	-
		P 43,720,366	P 23,105,550

Security deposits represent deposits received from dealers for the lease of equipment that are installed in retail stations and are refundable at the end of the lease terms. The deposits are carried at amortized cost using the effective interest rates at the inception of the lease contracts. The day one gain amounting 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:

	Note	2009	2008	2007
Cost of fuels and lubricants sold		**P 5,140,984,927**	P 4,192,696,751	P 2,097,437,575
Cost of services		**30,651,958**	1,499,001	-
Cost of real estate sold	19	**9,437,055**	-	-
		P 5,181,073,940	P 4,194,195,752	P 2,097,437,575

18.1 Cost of Fuels and Lubricants Sold

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

	Note	2009	2008	2007
Inventories at beginning of year		**P 155,966,344**	P 178,059,559	P 43,542,512
Net purchases during the year		**5,442,942,998**	4,170,603,537	2,231,954,622
Goods available for sale		**5,598,909,342**	4,348,663,096	2,275,497,134
Inventories at end of year	8	**(457,924,415)**	(155,966,344)	(178,059,559)
		P 5,140,984,927	P 4,192,696,752	P 2,097,437,575

18.2 Cost of Services

Details of cost of services are shown below:

	Note	2009	2008
Depreciation	12	**P 9,200,153**	P -
Outside services		**7,164,278**	-
Taxes and licenses		**3,924,205**	-
Salaries and employees benefits		**3,768,381**	327,496
Fuel, gas and lubricants		**2,848,836**	852,478
Travel and transportation		**1,130,292**	319,027
Security services		**967,202**	-
Insurance		**805,202**	-
Others		**843,409**	-
		P 30,651,958	P 1,499,001

19. OPERATING EXPENSE BY NATURE

The details of operating expenses by nature are shown below:

	Notes	2009	2008	2007
Cost of sales:				
Fuels		**P 4,985,388,086**	P 4,079,631,960	P 2,051,253,972
Lubricants		**155,596,901**	113,064,791	46,183,603
Cost of real estate sold	18	**9,437,055**	-	-
Salaries and employee benefits	20.1	**78,924,498**	53,134,981	43,898,747
Depreciation and amortization	12	**77,254,700**	58,801,456	32,740,544
Rent	24.1, 28.3	**61,279,012**	30,872,124	6,195,184
Advertising and promotions		**36,989,916**	12,437,160	8,255,498
Fuel, oil and lubricants		**24,383,930**	18,797,840	8,387,492
Taxes and licenses		**20,887,782**	2,945,398	7,412,244
Trucking charges		**20,144,572**	12,573,778	2,278,463
Travel and transportation		**16,834,830**	10,712,495	5,720,417
Professional fees		**16,313,650**	6,089,715	4,038,325
Repairs and maintenance		**14,852,411**	5,294,260	5,320,096
Balance carried forward		**P 5,518,287,343**	P 4,404,355,958	P 2,221,684,585

	Notes	**2009**	2008	2007
Balance carried forward		**P 5,518,287,343**	P 4,404,355,958	P 2,221,684,585
Utilities		**11,614,548**	6,833,648	6,350,572
Office supplies		**10,959,196**	10,423,649	7,193,268
Outside services		**8,785,030**	2,572,710	2,902,195
Insurance		**8,464,370**	2,698,250	2,091,100
Representation		**6,600,378**	4,230,721	3,512,357
Security fees		**5,428,832**	3,292,615	1,908,075
Sales commissions		**244,818**	4,191,711	-
Service fee		**-**	456,265	2,800,000
Miscellaneous		**18,910,571**	10,961,523	5,526,920
		P 5,589,295,446	P 4,450,017,050	P 2,253,969,072

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

	Note	**2009**	2008	2007
Cost of sales and services	18	**P 5,181,073,940**	P 4,194,195,752	P 2,097,437,575
Selling and administrative expenses		**408,221,526**	255,821,298	156,531,497
		P 5,589,295,466	P 4,450,017,050	P 2,253,969,072

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:

	Note	**2009**	2008	2007
Salaries and wages		**P 60,235,468**	P 41,190,831	P 32,056,842
Employee welfare and other benefits		**12,155,303**	6,989,985	5,258,542
13th month pay and bonuses		**5,258,719**	3,826,987	4,769,613
Post-employment benefits	20.2	**1,275,008**	1,127,178	1,813,750
	19	**P 78,924,498**	P 53,134,981	P 43,898,747

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:

	2009	2008
Present value of obligation	**P 4,976,200**	P 2,418,400
Unrecognized actuarial gains (losses)	**(730,265)**	552,528
	P 4,245,935	P 2,970,928

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

	2009	2008
Balance at beginning of year	**P 2,418,400**	P 2,799,612
Current service cost	**928,400**	865,425
Interest cost	**374,852**	232,928
Actuarial loss (gain)	**1,254,548**	(1,479,565)
Balance at end of year	**P 4,976,200**	P 2,418,400

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

	Note	**2009**	2008	2007
Current service cost		**P 928,400**	P 865,425	P 1,781,175
Interest cost		**374,852**	232,928	32,575
Actuarial loss (gain) recognized during the year		**(28,244)**	28,825	-
	20.1	**P 1,275,008**	P 1,127,178	P 1,813,750

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

	2009	2008
Discount rate	**10.44%**	15.50%
Expected rate of salary increase	**10.00%**	10.00%

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

21. REGISTRATION WITH THE BOARD OF INVESTMENTS (BOI)

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

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

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

(b) Additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital

equipment to number of workers set by the board of not more than US$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH;

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

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

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

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

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

22. REGISTRATION WITH DAVAO CITY INVESTMENT INCENTIVE CODE OF 1994

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

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

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

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

23. TAXES

23.1 Current and Deferred Tax

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

	2009	2008	2007
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**(P 1,587,244)**	P -	P -
Final tax at 20%	**(108,651)**	(4,926)	(1,682)
	(1,695,895)	(4,926)	(1,682)
Deferred tax income:			
Deferred tax income relating to net operating loss carryover (NOLCO)	**6,959,670**	9,021,080	4,351,788
Reversal of NOLCO	**(369,088)**	-	-
Deferred tax relating to reversal of temporary difference	**(283,380)**	-	-
Relating to tax application of NOLCO	**(26,915)**	(1,409,842)	-
Deferred tax resulting from reduction in tax rate	**-**	(1,775,005)	-
	6,280,287	5,836,233	4,351,788
	P 4,584,392	P 5,831,307	P 4,350,106

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

	2009	2008	2007
Tax on pretax income at 30% in 2009, 35% in 2008 and 2007	**P 4,868,812**	P 7,604,209	P 4,348,444
Adjustment for income subjected to lower income tax rates	**54,324**	3,693	1,662
Tax effects of:			
Reversal of NOLCO	**(369,088)**	-	-
Non-deductible interest expense	**30,344**	(1,590)	-
Reduction in tax rate	**-**	(1,775,005)	-
Tax income reported in profit or loss	**P 4,584,392**	P 5,831,307	P 4,350,106

The tax income for the years 2009, 2008 and 2007 pertains to the subsidiaries. The Parent Company availed of the income tax holiday under its registration with the BOI (see Note 21) starting on January 1, 2006.

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

	Statements of Consolidated Financial Position		Statements of Consolidated Comprehensive Income	
	2009	2008	**2009**	2008
NOLCO	**P 17,213,693**	P 10,650,027	**P 6,563,667**	P 5,836,235
Retirement benefit obligation	**283,380**	-	**-**	-
Payment of retirement benefits	**(283,380)**	-	**(283,380)**	-
Deferred Tax Income			**P 6,280,287**	P 5,836,235
Deferred Tax Assets	**P 17,213,693**	P 10,650,027		

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
2009	P 23,198,900	P 6,959,670	2012
2008	25,774,508	7,732,352	2011
2007	8,405,572	2,521,671	2010
	P 57,378,980	P 17,213,693	

23.2 Optional Standard Deduction

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

In 2009 and 2008, the Group opted to continue claiming itemized deductions.

23.3 Change in Applicable Tax Rates

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

24. RELATED PARTY TRANSACTIONS

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

24.1 Rentals

The Group has an operating lease agreement with Udenna Corporation, the ultimate parent company. Total rent expense incurred in the years 2009, 2008 and 2007 is P3.8 million, P4.8 million and P2.8 million, respectively and is presented as part of Rent expense in profit or loss (see Note 19).

24.2 Due from Related Parties

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

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

	2009	2008
Due from parent company:		
Balance at beginning of year	**P 2,937,730**	P 22,498,464
Additions	**-**	33,454,326
Collections	**(2,937,730)**	(53,015,060)
Balance at end of year	**P -**	P 2,937,730
Due from related parties:		
Balance at beginning of year	**P 13,302,975**	P 13,100,611
Additions	**1,118,712**	633,282
Collections	**(-)**	(430,918)
Balance at end of year	**P 14,421,693**	P 13,302,975
Total due from related parties:		
Balance at beginning of year	**P 16,240,705**	P 35,599,076
Additions	**1,118,712**	34,087,608
Collections	**(2,937,730)**	(53,445,978)
Balance at end of year	**P 14,421,693**	P 16,240,705

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

In 2009, the Parent company obtained cash advances from PPHI amounting to P53,114,682, which remains outstanding as of December 31, 2009 and is presented as Due to Parent Company in the 2009 consolidated statement of financial position. There are no advances obtained from PPHI in 2008.

24.3 Key Management Compensations

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

	2009	2008	2007
Salaries and wages	**P 19,699,625**	P 17,770,685	P 18,439,923
13th month pay and bonuses	**2,761,963**	2,410,405	2,576,032
Honoraria and allowances	**1,695,559**	1,647,060	570,689
	P 24,157,147	P 21,828,150	P 21,586,644

25. EQUITY

25.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2009	2008	2007	**2009**	2008	2007
Common shares – P1 par value						
Authorized:	**400,000,000**	400,000,000	400,000,000	**P 400,000,000**	P 400,000,000	P 400,000,000
Issued:						
Balance at beginning of year	**188,000,198**	145,000,000	116,000,000	**P 188,000,198**	P 145,000,000	P 116,000,000
Stock dividends	**73,660,677**	43,000,198	-	**73,660,677**	43,000,198	-
Issued during the year	**7,500,000**	-	29,000,000	**7,500,000**	-	29,000,000
Balance at end of year	**269,160,875**	188,000,198	145,000,000	**P 269,160,875**	P 188,000,198	P145,000,000

As of December 31, 2009 and 2008, the Parent Company has 26 stockholders owning 100 or more shares each of the Parent Company's capital stock.

25.2 Additional Paid-in Capital

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

25.3 Deposits on Future Stock Subscriptions

In 2009, the Parent Company received subscriptions amounting to P44,625,000. Pending the Parent Company and investor agreement as to the number of shares to be issued, the amount received was presented as Deposits on Future Stock Subscriptions in the 2009 consolidated statement of financial position.

25.4 Treasury Shares – At Cost

The details of this account are as follows:

	Shares			Amount		
	2009	2008	2007	**2009**	2008	2007
Balance at beginning of year	**3,849,000**	795,000	-	**P 17,252,140**	P 5,639,300	P -
Purchases during the year	**-**	3,054,000	795,000	**-**	11,612,840	5,639,300
Balance at end of year	**3,849,000**	3,849,000	795,000	**P 17,252,140**	P 17,252,140	P 5,639,300

25.5 Retained Earnings

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

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

25.6 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:

	2009	2008
Total liabilities	**P 3,474,553,420**	P 1,677,322,998
Total equity	**1,528,859,522**	690,757,863
Debt-to-equity ratio	**2.27 : 1.0**	2.43 : 1.0

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.

The increase in the total liabilities in 2009 is the result of the additional borrowings for the procurement of petroleum and construction of depot facilities as well as the outstanding installment payable to PHINMA Group for the purchase of BIPC. The increase in equity is due to the accumulated earnings.

26. BASIC EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	2009	2008	2007
Net profit	**P 751,476,659**	P 150,288,738	P 122,358,766
Divided by weighted average number of outstanding common shares	**216,068,147**	164,993,432	129,231,289
Earnings per share	**P 3.48**	P 0.91	P 0.95

The Parent Company does not have dilutive shares as of December 31, 2009, 2008 and 2007. Accordingly, no diluted earnings per share was computed by the Group.

27. SEGMENT REPORTING

27.1 Business Segments

In identifying its operating segments, management generally follows the Group's service lines, which represent the main products and services provided by the Group, namely fuels, lubricants, depot services and real estate. These are also the bases of the Group in reporting its primary segment information.

(a) The fuels segment is involved in the trading, supply and distribution of petroleum products to its retail service stations and commercial customers.

(b) The lubricants segment is involved in the trading, supply and distribution of automotive lubes and car care products.

(c) The depot services segment is involved in the leasing of storage space in the Group's terminal depot, hauling of Jet-A1 fuels to airports and refuelling of aircrafts.

(d) The real estate segment is involved in the selling of parcels of land.

27.2 Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property and equipment, and other assets, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts, trust receipts, wages, and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

27.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between segments and between geographical segments. Such sales and purchases are eliminated upon consolidation.

The tables presented in the next pages present revenue and profit information regarding business segments of the Group for the years ended December 31, 2009, 2008 and 2007 and certain asset and liability information regarding industry segments at December 31, 2009, 2008 and 2007 (in thousands).

	Fuels			Lubricants			Depot			Real Estate			Eliminations			Consolidated		
	2009	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
TOTAL REVENUES																		
Sales to external customers	**P 5,523,238**	P 4,415,876	P 2,265,246	**P 195,950**	P151,066	P 36,419	**P 143,718**	P 48,275	P 62,567	**P 10,146**	P -	P -	**P -**	P -	P -	**P 5,873,052**	P 4,615,217	P2,364,232
Intersegment sales	**3,396**	101,355	279,734	**-**	-	-	**48,508**	34,256	13,943	**-**	-	-	**(51,904)**	(135,611)	(293,677)	**-**	-	-
Total revenues	**P 5,526,634**	P 4,517,231	P 2,544,980	**P 195,950**	P151,066	P 36,419	**P 192,226**	P 82,531	P 76,510	**P 10,146**	P -	P -	**(P51,904)**	(P 135,611)	(P 293,677)	**P 5,873,052**	P 4,615,217	P2,364,232
RESULTS																		
Segment results	**P 304,804**	P 269,599	P 380,616	**P 8,505**	P 7,778	(P 4,200)	**P 17,226**	P 23,434	P 27,524	**P 5,125**	P -	P -	**(P51,904)**	(P 135,611)	(P 293,677)	**P 283,756**	P 165,200	P 110,263
Unallocated expenses																**-**	-	-
Income from operations																**283,756**	165,200	110,263
Unallocated income:																		
Excess of fair value of net assets acquired over acquisition cost																**573,389**	-	-
Finance costs	**(79,676)**	(44,462)	(8,108)	**(3,902)**	(829)	(189)	**(30,991)**	(760)	(404)	**-**	-	-	**-**	-	-	**(114,569)**	(46,051)	(8,701)
Finance income	**4,986**	24,601	8,616	**13**	9	3,961	**23**	718	8	**-**	-	-	**-**	-	-	**5,022**	25,328	12,585
Others	**259**	(20)	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**259**	(20)	-
																464,101	(20,743)	3,884
Income before tax and pre-acquisition loss (profit)																**747,857**	144,457	114,147
Pre-acquisition loss (profit)																**(965)**	-	3,862
Profit before tax																**746,892**	144,457	118,009
Tax income (expense)	**507**	(1,528)	2,235	**(398)**	(155)	1,100	**6,432**	7,515	1,015	**(1,956)**	-	-	**-**	-	-	**4,585**	5,832	4,350
Net profit																**P 751,477**	P 150,289	P 122,359
ASSETS AND LIABILITIES																		
Segment assets	**P 2,700,447**	P 1,461,210	P 591,662	**P 65,224**	P105,464	P 18,690	**P 1,632,265**	P 801,407	P 581,853	**P 605,477**	P -	P -	**P -**	P -	P -	**P 5,003,413**	P 2,368,081	P1,192,205
Segment liabilities	**2,157,285**	1,140,993	421,751	**55,134**	94,158	23,687	**1,210,961**	442,172	180,184	**51,173**	-	-	**-**	-	-	**3,474,553**	1,677,323	625,622
OTHER SEGMENT INFORMATION																		
Capital expenditures	**P 201,633**	P 259,502	P 132,378	**P 5,680**	P 8,775	P 1,777	**P 378,927**	P 259,057	P 218,919	**P 309,741**	P -	P -	**P -**	P -	P -	**P 895,981**	P 527,333	P 353,074
Depreciation and amortization	**33,002**	35,393	21,531	**4,781**	1,420	791	**30,040**	21,989	10,419	**9,432**	-	-	**-**	-	-	**77,255**	58,802	32,741
Impairment losses	**1,190**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**1,190**	-	-

28. COMMITMENTS AND CONTINGENCIES

28.1 Capital Commitments

As of December 31, 2009, the Group has commitments of more than P300.0 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 120 opened retail service stations as of December 31, 2009. An additional of 28 other retail service stations were under various stages of completion as of December 31, 2009.

In 2010, the Group plans to expand further its petroleum retail service stations and carry out its investments in it subsidiaries to put up depot and terminalling facilities in strategic locations and complete its chain of logistical support to strengthen its foothold in the industry.

28.2 Letters of Credits

As of December 31, 2009, 2008 and 2007, the Parent Group has unused letters of credit amounting to P537.0 million, P250.9 million and P317.0 million, respectively.

28.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under several operating leases. The leases have terms ranging from 2 to 5 years, with renewal options, and include annual escalation rates of 2% to 10%. The future minimum rentals payable under these cancelable operating leases are presented as follows:

	2009	2008
Within one year	**P 33,691,867**	P 25,569,301
After one year but not more than five years	**126,799,566**	112,036,842
More than five years	**272,101,048**	229,234,662
	P 432,592,481	P 366,840,805

Total rent expense for the years 2009, 2008 and 2007 amounted to P61,279,012, P30,872,124 and P6,915,184, respectively (see Note 19).

28.4 Operating Lease Commitments – Group as Lessor

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

	2009	2008
Within one year	**P 23,525,871**	P 6,523,790
After one year but not more than five years	**26,738,089**	24,394,047
More than five years	**4,327,125**	12,412,603
	P 54,591,085	P 43,330,440

Rent income for 2009, 2008 and 2007 amounting to P34,276,110, P17,237,494 and P10,329,087, respectively, is presented as part of Fuel Service, Storage Income and Other Revenues account in the consolidated statements of comprehensive income.

28.5 Others

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not given recognition in the consolidated financial statements. As of December 31, 2009, 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.

29. EXCESS OF FAIR VALUE OVER ACQUISITION COST

In March 2009, PPPI acquired 100% interest in BIPC. PPPI acquired the BIPC's net assets with a fair value of P1.2 billion on the date of the acquisition for a consideration of P658.8 million, of which P540.0 million was through installment payments (see Note 15.3).

The excess of the fair value of the nets assets of BIPC over the acquisition cost amounting to P573.4 million is presented in the consolidated statement of comprehensive income as Excess of Fair Value of Net Assets Acquired Over Acquisition Cost. The real properties of BIPC which is composed of land held for sale, land held for future development and port facilities were appraised by an independent appraiser. The fair values of the said properties are determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between the knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transactions as at the valuation date.

CORPORATE OFFICES

Davao Head Office
Phoenix Bulk Depot,
Lanang, Davao City 8000
Tel: +63 (82) 235-8888
Fax: +63 (82) 233-0168

Manila Office
25th Floor Fort Legend Towers
3rd Avenue corner 31st street,
Fort Bonifacio Global City
City of Taguig
Tel: (+632) 403-4013
Fax: (+632) 403-4021

Cebu City Office
12th Floor, Skyrise II Building,
Asia Town IT Park, Lahug,
Cebu City 6000
Tel: +63 (32) 236-8168, 236-8198

Bacolod City Office
Rm 210-212 A. Chan Building,
Mandalagan, Bacolod City 6100
Telefax: +63 (034) 441-2683

Cagayan de Oro Office
117 LYL Arcade, Baloy,
9000 Cagayan de Oro
Tel: +63 (88) 855-4527
Fax: +63 (88) 855-4528

General Santos Office
Mezzanine Floor, RD Plaza,
Daproza St.,
General Santos City 9500
Tel: +63 (83) 553-9207,
+63 (83) 304-0046

SHAREHOLDER SERVICES

Banco de Oro
Stock Transfer Office
16F BDO South Tower Bldg.
Makati Ave. corner H.V. Dela Costa St.
Salcedo Village, Makati City
1227 Philippines
Tel: +63 (02) 840-7000 local 6975 to 6979

STOCK TRADING INFORMATION

Phoenix Petroleum Philippines, Inc. is listed on the Philippine Stock Exchange. Ticker symbol: PNX

Email: info@phoenixphilippines.com
Website: www.phoenixphilippines.com


PHOENIX