PHOENIX
Fuels Life

INTEGRITY • EXCELLENCE • SERVICE
INNOVATION • TEAMWORK • STEWARDSHIP

YOUR INDISPENSABLE PARTNER IN LIFE'S JOURNEY

PHOENIX PETROLEUM PHILIPPINES, INC.

ANNUAL REPORT 2012

VISION

To be an indispensable partner in the journey of everyone whose life we touch

MISSION

- We deliver the best value in products and services to our business partners
- We conduct our business with respect, integrity, and excellence
- We provide maximum returns to our shareholders and investors
- We create opportunities for learning, growth, and recognition to the Phoenix Family
- We build programs to nurture the environment and welfare of the communities we serve

CORE VALUES

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

EXCELLENCE
We aim to be the best in everything we do.

SERVICE
We value all our stakeholders, and provide unrivalled customer experience.

INNOVATION
We welcome opportunities to create at all times new and better products, services and ideas.

TEAMWORK
We value relationships. We achieve goals through collaborative efforts.

STEWARDSHIP
We nurture our resources responsibly.

PHOENIX PETROLEUM PHILIPPINES, INC.

Phoenix Petroleum Philippines, Inc. (PNX) is the leading independent and fastest-growing oil company in the Philippines. Since its first station in 2005 in the southern region of Davao, the Company has expanded nationwide to build a wide network of retail stations and commercial and industrial clients. Phoenix Petroleum is engaged in the business of retail and commercial sales and the trading of refined petroleum products and lubricants, operation of oil depots, storage and transport services and integrated logistic services. Its products and services are distributed and marketed under the PHOENIX Fuels Life trademark.

The company's operations are divided between trading, terminaling and hauling services. Under trading, PNX offers its refined petroleum products and lubricants to retailers and commercial clients in various industries.

Phoenix provides hauling and into-plane services of Jet A1 fuels to airports and airlines and refueling of aircraft in key cities in Mindanao. Since 2005, Phoenix has been the exclusive logistics partner of largest carrier Cebu Pacific Airlines in all their flights in Mindanao.

Phoenix Petroleum is a publicly-listed company on the Philippine Stock Exchange since July 2007, the only oil company to do so since the Oil Deregulation Law was passed in 1998. It is ranked 53rd in the country's Top 10,000 Corporations as of 2011.

ABOUT THE COVER

Working together with our partners for the greater good has always been our goal here at Phoenix Petroleum Philippines. And in our stride, it is our core values of integrity, excellence, service, innovation, teamwork and stewardship that has helped us make a difference in the lives of everyone we touch.

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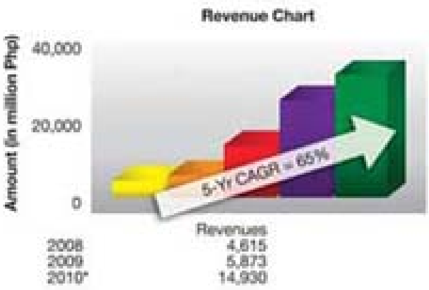
FINANCIAL HIGHLIGHTS

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.)
SUMMARY AND HIGHLIGHTS
Year 2008, 2009, 2010, 2011 and 2012
(All amounts expressed in millions, unless otherwise stated)

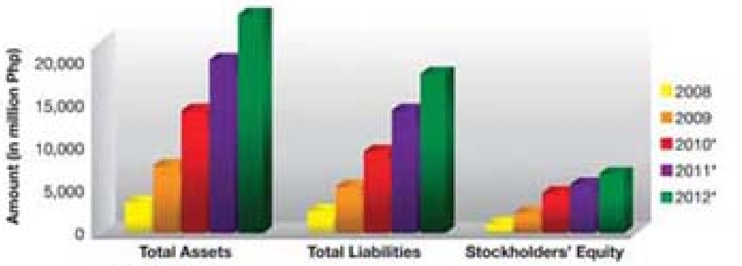
	2008	2009	2010	2011	2012
Income Statement Data:					
Revenues	4,615	5,873	14,930	27,451	34,586
Cost of Sales and Services	4,194	5,181	13,245	25,328	31,962
Net Profit-TOTAL	150	751	413	557	626
Net Income-Excluding Non-Recurring Income	150	178	413	557	626
Provision for Preferred Dividends			14	58	58
EBITDA	249	365	1,151	1,368	1,756
Balance Sheet Data:					
Current Asset	1,457	2,919	4,883	6,902	8,967
Non-current Asset	911	2,085	4,394	6,057	7,540
Total Assets	2,368	5,003	9,276	12,959	16,507
Current Liabilities	1,582	2,661	4,938	7,152	5,752
Total Liabilities	1,677	3,475	6,197	9,248	12,007
Stockholders' Equity	691	1,529	3,079	3,711	4,500
Bank Debts	**904**	**2,318**	**4,034**	**5,877**	**9,915**
Financial Ratios	**2008**	**2009**	**2010**	**2011**	**2012**
Current Ratio [1]	0.92:1	1.1:1	0.99:1	0.97:1	1.56:1
Debt to Equity [2]	2.43:1	2.27:1	2.01:1	2.49:1	2.67:1
Return on Equity [3]	23.91%	67.71%	17.92%	16.39%	15.24%
Return on Assets [4]	8.44%	20.39%	5.78%	7.87%	6.63%
Return on Sales	3.26%	12.80%	2.77%	2.03%	1.81%
Net Book Value Per Share [5]	3.75	5.76	5.61	5.61	4.96
Earnings Per Share-(Adjusted) [6]	0.19	0.88	0.44	0.55	0.63
Earnings Per Share-Core (Adjusted) [7]	0.19	0.21	0.44	0.55	0.63
Debt Service Cover Ratio:					
Stock Information:					
(Figures in millions except per share)					
Weighted Average No. of Shares-Adjusted of Stock Dividends	802.20	852.74	904.58	906.06	906.06
Number of Shares Issued	188.00	269.16	548.08	661.12	906.06
Total Number of Shares Outstanding-Year End	184.15	265.31	548.02	661.12	906.06
Market Capitalization-Year End	681.36	1,857.18	6,773.48	7,523.58	8,181.72
Stock Price-Closing (Year End)	3.70	7.00	12.36	11.38	9.03
Treasury Stock-Shares	4	4	0	0	0

* Restated Amounts



* Restated Amounts

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 (attributable to Common) divided by weighted average number of outstanding common shares
7 - Net income after tax attributable to Common (Excluding Non-Recurring Income) divided by weighted average number of outstanding common shares



* Restated Amounts

2012 MILESTONES

2012 was a year of significant milestones for Phoenix Petroleum in finance, expansion, recognition, and brand development.

5TH IPO ANNIVERSARY

Finance: The successful initial public offering of Phoenix Petroleum on July 11, 2007 at the Philippine Stock Exchange set for the Company a path to consistent growth, stronger operations, and solid finances. Five years since the IPO, from 2007 to 2012, Phoenix's revenue has grown at a compound annual growth rate of 71% to P34.586 billion, net income 39% to P626 million, and total equity 50% to P4.328 billion. Market capitalization grew at a compound annual growth rate of 84% from P383 million to P8.182 billion by end of 2012.

Phoenix Petroleum Chairman Domingo Uy and President and CEO Dennis Uy ring the bell to open the market session with PSE Chairman Jose T. Pardo and PSE President and CEO Hans B. Sicat, during the Company's 5th IPO anniversary, July 11, 2012 at the Philippine Stock Exchange

NUMBER 1 INDEPENDENT

Expansion: In 2012, Phoenix Petroleum gained 6% in market share nationwide, leading over other independent companies. The Company also has the widest retail presence among independents, with 300 Phoenix stations serving customers nationwide, from 220 in 2011. Phoenix continues to serve accounts in critical industries from transportation, agriculture, construction, and energy.

To support our expansion, the Company raised a total of P4.3 billion in term loans from 12 different lenders. This is the biggest amount ever raised by Phoenix and likely the biggest ever raised by an independent oil company in a single year. Moreover, the Philippine Rating Services Corp. (Philratings) issued a PRS Aa minus rating for another of the Company's possible corporate note offering.

We also acquired Chelsea Shipping Corporation, one of the top five major petroleum tanker owners in the country.

We continued to expand our network nationwide, opening our 300th station at Lanang, Davao City

SHARE OF AWARDS AND RECOGNITIONS

Recognition: The Company continues to receive recognitions in various fields, from management to finance, sales, brand, and communication, from prestigious award-giving bodies. Among the recognitions are: third best small cap company in the Philippines, best independent oil company in Asia, and Top 7 Importer in the Philippines.

President and CEO Dennis Uy was also a finalist in the Entrepreneur of the Year 2012 Philippines and the 11th Asia Business Leaders Award by CNBC Asia.


We have set a new vision for the Company: To be an indispensable partner in the journey of everyone whose life we touch

BOLDER VISION

Brand Development: Ten years since the Company was incorporated and five years since our successful market debut, we have set for ourselves a bold vision: "To be the indispensable partner in the journey of everyone whose life we touch."

MESSAGE TO SHAREHOLDERS

"This journey is not about ourselves but about making our partnerships strong, long-lasting, and indispensable."

MESSAGE TO SHAREHOLDERS
FROM THE CHAIRMAN AND PRESIDENT AND CEO

This past year has been an extraordinary one for the Philippines and for the Phoenix Petroleum family.

The significance of this statement to everyone of us in the Phoenix family should never be underestimated. The success of the Philippine economy and the success of the Filipino people are indispensable to the success of the Phoenix family. We can report to you today that this indispensable relationship is stronger and more mutually rewarding than it has ever been.

While the larger part of the global economy slowly stumbled toward its recovery in 2012 - and continued to struggle with the destabilizing effects of the Euro crisis, threats of a recession and fiscal cliff in the US, the slowdown in China's growth and stunning and uncharted political events in the Middle East - the Philippines and Phoenix Petroleum continued and expanded our unwavering economic movement forward.

Powered by the contemporary engines of our economy, the Philippines as an emerging market not only proved resilient but achieved a growth rate among the fastest in the world.

Faith in the integrity of governance by President Aquino, world renowned macroeconomic and budget management and the creativity, insight, commitment, competence and courage of Filipino businessmen, entrepreneurs, shareholders and workers have created a resilient and dynamic economy poised for even faster growth.

A growth foundation of BPO and high-value outsourcing, agricultural production, the hottest tourist industry in the world, a higher skilled, higher value OFW sector and the inevitable resulting growth in the consumer and services economy is set to make the Philippines one of the hottest economies of 2013 and Philippine companies prime targets for expanded domestic and foreign investment. Many of us believe that last year's extraordinary 33% composite index gain is only the beginning of what promises to be an even higher growth profile for the Philippine Stock Market.

It is in the context of this very tangible and very real economic achievement, optimism, and excitement that we can report today that your Phoenix Petroleum has been an integral participant and contributor to this historic era of economic success for the Philippines.

Of course this has been complex and challenging. Instability in the Middle East caused volatility in international oil prices. MOPS for Gasoil recorded a high of $137.64 in March and declined in May to June, to a low of $105.19. This steep drop in prices affected our profitability in the second quarter. Prices steadily climbed again in the second half, closing the year at $122.43.

This volatility was reflected in the industry's pump prices. In 2012, gasoline had a net increase of P1.66/liter, while diesel had a net decrease of P1.33/liter. However, this is significantly lower than the 2011 average increase of P4.68/liter in gasoline and P6.09/liter in diesel.

Vigilance, insight, reliability and competence by our Phoenix team and business partners helped us to manage and prosper in this instability.

Economic good news was stronger.

The number of vehicles registered from January to September 2012 increased to 6,316,522 from the 6,052,029 in the whole of 2011, according to the Land Transportation Office. A new and thriving middle class fueled by the outsourcing industry and one of the hottest tourist economies in the world drove strategic consumer growth related to the downstream energy sector.

Commercial sector opportunities for the downstream energy sector was fueled by growth in the transportation, agriculture, tourism, construction and property sectors.

These signs of growth bode well for the Philippines' international profile, which is now seen by many as a country to watch and a people to invest in.

For the first time our Philippine president was asked to speak to the world's economic leadership at Davos, Switzerland about the Philippine experience of integrity in governance driving economic growth. Our growth momentum is expected to continue in 2013, and businesses and companies must be ready for the opportunities that will open along with our country's ascent.

For the Philippines and the Filipino people the future is one of a bright and extraordinary economic future. Our Phoenix Petroleum is poised for this future. The proofs of our preparation for the future are the achievements of the past.

We have had successes that many could not understand. That ignorance has on occasion led to false accusations and criticisms. Fortunately 2012 has been a year of formal vindication at the highest level from those attacks and criticisms.

2012 has also been a year when many came to understand that our success comes from hard work, knowledge, creativity, experience, confidence, loyalty and courage. These qualities are displayed by our investors and shareholders, our business partners, our employees and of course our customers.

Together we are building the future of the downstream energy industry.

It is our collective leadership in grasping the future that explains our success. Five years after our initial public offering, Phoenix Petroleum is a stronger, bigger, better company. Since our public listing in July 2007 to 2012, compound annual growth rates (CAGR) of our revenue has risen to 71%, volume 67%, market capitalization 84%, and equity 50%. Our stock has averaged an annual return of 74% a year, while the CAGR of our stock price in 5.56 years is 42% per annum. These give cumulative returns of 411% to the Phoenix stockholder who invested in our stock since the IPO.

LEADING INDEPENDENT

In 2012, we continued to grow and become the number one independent oil company in the Philippines. Our market share of 6% nationwide puts us as the fourth biggest, next to the majors. In the industry, independents and end-users as a group captured 31.9% of the market share as of first half of 2012, according to the Department of Energy. The three major oil players got 68.1% of the market from 78.8% of first half 2011.

Demand for petroleum products in the first half of 2012 grew by 4.2 percent to 58,542 MB from 56,201 MB of 1H 2011, or an average daily requirement of 321.7 MB compared with 1H 2011's 310.5 MB.

In 2012, we opened 80 new stations, expanding our retail network to 300 nationwide. Most of our stations are in Mindanao, with 191 in the island, while in Luzon we have 88 stations and in Visayas 21.

The expansion of our retail network and increase in sales, along with the growth in our commercial fuels business, increased our revenue 26% to P34.7 billion from P27.5 billion in 2011.

Of our revenue, sales to commercial accounts make up 63%, retail 27%, sales to airlines 8%, lubricants 1% and services such as shipping, terminaling and into-plane 1%.

Our total fuel sales volume for the year increased 26%, with retail sales growing 26% and commercial sales 25%. Revenue from terminaling and other services increased by 34%.

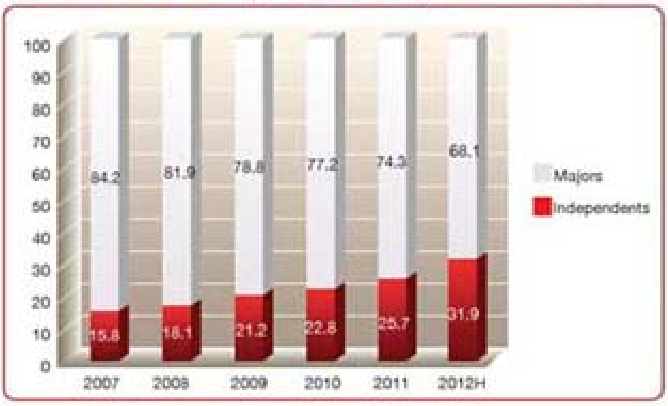
Return on sales declined by 22% because of challenge in margins in the second quarter of the year. Our operating expenses increased 20% due to rising volume and continuous expansion in the organization and business operations. Our capital expenditure for 2012 was at P1.6 billion.

Net recurring income increased 12% from P557 million to P626 million in 2012, or earnings per share of P0.63.

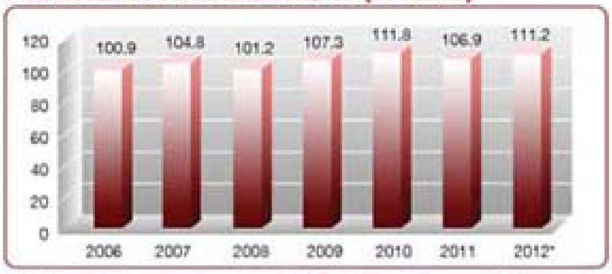
Return on equity decreased to 15.24% from 16.39%. Total shareholders' equity grew to P4.5 billion from P3.7 billion a year ago.

The strong performance of the Philippine economy buoyed the stock market, including our stock price which grew 20% year on-year and stock returns 21%. In 2012 we gave 50% stock dividend and P0.10 cash dividend to our stockholders.

Market Share of Majors and Independents in %



Petroleum Product Demand (in MMB)



**2012 first half demand at 58.5 MMB. Full year forecast at 4% increase over 2011. Market Share and Petroleum Product Demand data from Department of Energy*

PNX Stock

2012 Stock Price Growth	20%
2012 Stock Price Returns	21%
No. of Years of Investment	5.56
Cumulative returns as of Dec. 31, 2012	411%
Average Annual Return – Straight	74%/annum
CAGR of Stock Price (5.56 Years)	42%/annum

STRONG SUPPORT

Supporting our growth is our operations, finance, and support units. Our seven terminals and depots are being upgraded or expanded to increase storage capacity and operation efficiency. In the third quarter, we acquired Chelsea Shipping Corporation, one of the top five major petroleum tanker owners in the country. The acquisition will help ensure supply of our products.

2012 also marked for us several firsts for an independent. We raised a total of P4.3 billion in term loans from 12 different lenders, probably the biggest raised by an independent. We also received a PRS Aa minus rating from the Philippine Rating Services Corp. (Philratings), which expresses confidence in our capacity to meet our obligations.

It is equally important to note that our success is not limited to the profitability, share value and other economic indicators we have achieved. We see our successful 2012 as a year where we built the internal resources, systems, structures and capabilities especially in the area of brand development and marketing in order to continue to break new ground and assert

MESSAGE TO SHAREHOLDERS
FROM THE CHAIRMAN AND PRESIDENT AND CEO

leadership in the development of the future of the deregulated downstream energy industry.

Moreover 2012 was a year when we were again acknowledged and awarded by independent external institutions for our achievement, competence and leadership in our core businesses as well as our commitment to social responsibility in our community and our nation.

Our team grew to 459 from 383 the previous year, and it is our aim to retain the best and recruit the best by creating a work environment that inspires people to perform. We are also strengthening our family of dealers, distributors, and business partners, who share our mission to give the best service experience to our customers.

In 2012 we began a state-of-the-art Business Process Mapping Project to make our processes more effective, efficient, and robust. We look forward to the great improvements from this new system when it is implemented in late 2013.

We also made great strides in our Brand expression and reputation through a more integrated and unified strategic brand expressed through promos, events and partnerships, and media exposures on print, TV, and radio. We will continue to strengthen our brand, both consumer and corporate, which over the years we have built as your reliable partner in life's journeys.

In serving the communities, we expanded our projects to benefit more people in our advocacies on education, environment, health and safety, and outreach. We have become a full and active member of the PBSP (Philippine Business for Social Progress) where we work at the CEO and Chairman level with the Philippines' largest corporations to achieve our common goals in social progress. Here in Davao, a major initiative this year is our adoption of a Philippine Eagle for five years to help save the endangered species. This is part of our commitment to preserve the environment for future generations.

RECOGNIZED

Our efforts have been recognized by prestigious award-giving bodies on leadership, business, brand, and communication. Among these recognitions are being named one of the best small-cap companies in the Philippines, the best independent oil company in Asia, finalist in the Asia Business Leaders Awards and Entrepreneur of the Year Philippines, and citations for our TV advertisement and company magazine.

For the second consecutive year, we were awarded by the Bureau of Customs (BOC) as the Top 7 Importer in the Philippines for 2012 and the top 1 Importer in the Port of Davao.

In November we were vindicated at the highest level of unfounded and fabricated charges when the Department of Justice (DOJ) cleared us of the charges of smuggling and other alleged violations of the Tariff and Customs Code of the Philippines filed by certain personalities in the BOC in 2011. It is worth noting that those inside the Bureau of Customs that filed these false charges against Phoenix and other innocent corporations have been dismissed by order of the Office of the President. The DOJ, in dismissing the charges, ruled that our transactions were regular and above-board.

This is very much welcome news, as it officially clears us of false allegations.

Through all of those unfounded allegations, our business partners, bankers, dealers, customers, and employees remained confident, loyal and kept us as trusted business and personal relationships. To them we are ever grateful and humbled by the faith and support. We will never forget your faith and friendship.

We start 2013 with clarity of purpose and from a powerful launching pad of success, vindication and preparation. Together we share common values of optimism, enthusiasm, humility and purpose. Our new corporate vision guides us as we hope it will inspire you: **To be an indispensable partner in the journey of everyone whose life we touch.**

An ambitious reach? Yes, but an ambitious reach that is worth accomplishing.

There is a quote from the famous poet Robert Browning:

"A man's reach should exceed his grasp, or what's a heaven for?"

For ultimately, this journey is not about ourselves, but about making our partnerships strong, long-lasting, and indispensable. That is heaven.

Together, we will soar higher.

Domingo T. Uy
Chairman

Dennis A. Uy
President and CEO

Q&A WITH THE CHIEF OPERATING OFFICER

Romeo B. De Guzman
Chief Operating Officer

"It's a composition of People and Brand that made us achieve the Number 1 position as independent in the industry."

Q&A WITH THE CHIEF OPERATING OFFICER

How would you evaluate the Company's performance in 2012?

The year 2012 can be considered a banner year for PNX. Last year's Fuels and Lubricants sales volume grew by double digit versus 2011, except on Jet A-1, due to operational concerns. The 80 retail outlets put up in 2012 are more than the average new-to-industry (NTI) of any other oil company in the industry. PNX received awards in management, finance, sales, brand, and communication, which affirm what we are doing and the hard work of our people.

In 2012, the Company became the number one independent in the Philippines after only eight years of operation. What have been the keys to your success?

The key to our success lies in the collective effort of the entire Phoenix family. Shareholders, business partners, employees and management have worked together to build the model company for the future of the downstream industry here in the Philippines.

In general terms we have built a model based on a unique balance of sustainability, institutionalization of standards, and entrepreneurial spirit and values.

More specifically, even before we set the objective of becoming the No. 1 player among the independents by 2012, in 2009 we conducted a trade survey to identify PNX's position. As a number four player, and with a gap from the then leading player, we identified the areas where to put up NTIs (CODOs and DODOs). Having the right direction in network planning, we also started forming a dealer selection panel to improve the dealer network.

Moreover, it was a must to hire the right people with experience. These are the people identified to develop and implement the growth programs for the next three years.

Branding is another key success factor. For the first time, we conducted a Brand Health Survey to establish a baseline. Manny Pacquiao's endorsement in TV, radio, and billboards can be considered a major factor to help build awareness to the motoring public. The PBA out-of-town sponsorship was also a great help, plus the other TV ads which were recognized by awards groups.

In summary, it's a composition of People and Brand that made us achieve the Number 1 position as independent in the industry.

What are the most pressing challenges the Company faces?

Let me answer by first saying that we as an organization thrive on challenges. It is the challenge that drives us to achievement and success. I don't think there will ever be a day that we don't relish overcoming a challenge.

Specifically at this stage of corporate growth we are still in the process of Organizational Development. We want to have more quality and competitive people in the organization to deliver the more challenging tasks. Likewise, competition is aggressive and they are trying to catch up in terms of network share. However, PNX needs to concentrate in developing and improving our VM or Visual Manifestation. The continuous improvement of our Retail Network, not only in terms of numbers, but also in terms of quality would be the edge against competition. The dealer network, considered as business partners, will be the Company's advantage versus others.

The petroleum industry is very competitive. What makes Phoenix Petroleum different from the other companies?

People, people, and people. Aside from a major oil company, we are the only petroleum company which can be considered decisive. Others, the decisions emanate in highly bureaucratic processes determined from outside the Philippines. As I said earlier, balance of sustainability, institutionalization of standards, and entrepreneurial spirit and values make us a company that is faster, smarter and better.

How do you intend to sustain the growth of the Company?

We need to retain good professional individuals, and continue to acquire quality young and experienced men and women. We need to continue to develop the Retail and Dealer Network, and emphasize the importance of safety and delivery of operational excellence in the organization. Our brand and marketing development will only get stronger and more productive. These will enable us to acquire more prestigious industrial and commercial customers.

Lastly, we will become more sustainable and more entrepreneurial everyday.

Looking ahead, how do you see the Company in the next three years?

We live in highly dynamic economic and political times, but we have built the internal capacity to manage that complexity. We believe that our upward trajectory will have established Phoenix as a defining market player by then, given its size, resources and the quality of people in the organization.

REVIEW OF OPERATIONS

EXPANDING OUR NETWORK TO SERVE MORE


We have more and more stations nationwide, from Putatan, Muntinlupa in Luzon...

to Sogod, Southern Leyte in Visayas...


to Carrascal, Surigao del Sur in Mindanao.

RETAIL

We opened 80 new retail stations in 2012, for a total of 300 Phoenix stations nationwide: 191 in Mindanao, 21 in Visayas, and 88 in Luzon. This makes Phoenix not just the fastest-growing "independent" retail petroleum company, but over the past five years Phoenix is the fastest-growing retail petroleum company of any kind, in the Philippines. With our new logistical capability in the Visayas we anticipate next year's growth to be even stronger.

Nationwide, our market share increased from 5.4% to 6% in 2012, making us the number one independent oil company in the Philippines. In Mindanao, we are the fourth oil company, with 9% market share and 16.6% network share.

In line with last year's priorities, our retail stations recorded fuel sales volume growth of 28%, while lubricants were up 32%.

As part of development strategy, Phoenix stations continue to be destinations in themselves by providing other services to the public. In Luzon, 10 Phoenix sites have been installed with BDO ATMs, while 24 stations boast of air-conditioned restrooms as part of our "Clean and Cool" Program. All built locator spaces are 100% occupied.

In Mindanao, our 300th station in Lanang, Davao City is a prototype of future development models and as such is equipped with modern conveniences and a larger commercial complex. Locators include an auto service shop, bakery, restaurants, coffee shops, and personal service parlors.

With our dealers as the frontline of our business and indispensable partners, strengthening personal and commercial relationships with them is an essential part of our mission. We regularly conduct dialogues with our dealers to discuss developments in the company, improve relationship processes and build camaraderie.
Much-awaited is the annual Business Partners Appreciation Night in December, a grand event based in both Luzon and Mindanao that awards outstanding dealers and commercial customers, and celebrates the year's achievements.

More stations are equipped with airconditioned restrooms under our Clean and Cool Program


Phoenix stations are becoming destinations, such as our mega-station in Daang Hari, Molino, Cavite which is also home to a convenience store and restaurant


The annual grand Business Partners Appreciation Night recognizes outstanding dealers in Luzon...


and Mindanao and Visayas

REVIEW OF OPERATIONS
EXPANDING OUR NETWORK TO SERVE MORE

COMMERCIAL

The highly efficient and entrepreneurial culture of Phoenix has made commercial sales a foundation of our success. That foundation grew significantly this past year as Commercial Fuel Sales grew 25% and Lubricants 11% over the previous year. This growth was largely driven by an increase in the number of commercial accounts being served. We acquired prestigious accounts in key economic growth sectors in construction, steel manufacturing, power, shipping, transportation, mining, and agriculture. In Cebu, we inked a two-year supply deal with the provincial government to supply diesel and gasoline.

In Mindanao we are already the second biggest commercial fuel sales provider, with our market share of 19% bringing us at par with a global oil company. In Zamboanga Peninsula, Phoenix is the market leader in their fishing industry.

LUBRICANTS

Succeeding in the highly competitive lubricants market is a high priority for Phoenix and 2012 saw significant expansion of our network for lubricant sales.

Total lubricant sales in all trade channels and regions grew by 12% over 2011. High Street (Distributor) lubes sales, which represent 60% of total lubes sales of the company, increased by 8% over the previous year.

Phoenix lubricants is now the Top 7 in the industry as of end-2012, with a total sales volume of 4.26 million liters, which were sold to the Retail, Commercial/Industrial & High Street trade channels.

Among our products, sales of Phoenix Motorcycle Oils (Cyclomax) grew by 39% due to sustained brand awareness campaigns nationwide. Phoenix Passenger Car Motor Oils (Accelerate) grew by 44% due to the increase in NTIs nationwide.

In March, we rolled out a new product, Accelerate Vega, our first fully synthetic oil. Accelerate Vega is a premium quality, fully-synthetic, 5W-40 multi grade engine oil formulated to attain the highest level of performance for modern high-operation vehicles. It can match the performance of any of the fully synthetic oil brands in the market today at a more affordable price.

For our distributors, we held the 1st National Lubricants Distributors' Conference in Clark Field, Pampanga. The three-day conference and teambuilding gathered all our distributors towards the fulfillment of one team, one mission, one goal.

We serve critical and growth industries such as construction, power, transportation, manufacturing, mining, and agriculture

The growth in our network increased our lubes sales significantly

Our line of high-quality lubricants are recommended for a variety of vehicles from motorcycles and passenger cars to commercial

The 1st National Lubricants Distributors' Conference gathered all our distributors from different regions

REVIEW OF OPERATIONS

DELIVERING SEAMLESS LOGISTICS

Rapid growth in the past year as well as predicted expansion in 2013 required significant, immediate and predictive planning, implementation and commitment to the development of the Phoenix logistics infrastructure, capability, relationships and knowledge.

The past year was instrumental and defining in the success of that logistical capability.

OPERATIONS, LOGISTICS AND ENGINEERING

We achieved or exceeded our target goals in operational startup in new depots, and expanded our storage capacities in Luzon, Visayas, and Mindanao, with special attention to "Greenfields" targets for dealer and retail outlet growth. We additionally upgraded our supportive facilities and Human Resource capabilities to keep pace with the current growth of our business. These infrastructure and HR developments are designed to accommodate predicted growth patterns for both commercial and consumer sales and will assure that growth is not limited by logistical issues.

One example is storage capacity. From 164 million liters in 2011, our total storage capacity in 2012 increased to 226 million liters. These are spread among our three terminals in Calaca, Cagayan de Oro, and Davao, and four depots in Zamboanga, Cebu, Aklan, and Bacolod, which started operating in February.

Additional tanks and supporting facilities were constructed in Calaca, Davao, Zamboanga, and Dumaguit, Aklan. In Cebu, we transferred operations from Minglanilla to Ludo compound to include Jet-A1 transactions. In Subic, we started commingling operations for ADO and Mogas in November. We also commissioned CME/E10 blending facilities in Calaca, Davao, and CDO.

Customer-specific logistical development is a core strategy for Phoenix. Since 2005, a customer-specific logistics development strategy has supported our role as the exclusive logistics provider of leading low-cost carrier Cebu Pacific Airlines in all its Mindanao destinations. In May 2012, we started into-plane services for them in Butuan.

LUBRICANT MANUFACTURING

Growth in both commercial and consumer lubricant sales has been and will continue to be a priority. We have built strategic logistical support for this priority through Depot Operations that established lubricant warehousing and distribution capabilities in Cagayan de Oro, Zamboanga, and Calaca, Batangas. This is in addition to the existing Central Warehouse in Caloocan, Davao terminal, Cebu, and Bacolod.

Our first depot in Davao City continues to be upgraded and expanded to support the growing business

Our terminal in Calaca, Batangas, as well as Davao and Cagayan de Oro, is equipped with CME/E10 blending facilities

We have been the exclusive logistics provider of Cebu Pacific since 2005. In 2012 we started into-plane services for them in Butuan

We are building strategic logistical support to grow our Lubricants business

Additional logistical activities related to lubricants enabled us to expand bulk storage, toll-filling, and laboratory testing capacities. We also launched new packaging for 1L and 4L products to further align graphic design with brand strategy.

OUR SUBSIDIARIES

The subsidiary companies and services of Phoenix Petroleum have always developed as part of vertical strategy that has allowed Phoenix to successfully navigate the future of the deregulated downstream energy business in the Philippines. These subsidiaries and their relationships to the parent company have created a symbiotic value creation and growth process for both subsidiary and parent.

PHOENIX PETROTERMINAL AND INDUSTRIAL PARK (PPIP)

PPIP in 2012 handled port volume of 875,000 MT, contributing revenues of P55 million. Phoenix Petroleum accounted for 59% of total volume and 47% of total revenues, while salt importer Arvin International accounted for 24% of total volume and 33% of total revenues.

In compliance with the development plans with HLURB and our commitment to SLTEC, we completed the river protection project along the creek in Phase I and in Phase II.

We signed an MOU on build-lease arrangement with Natura Mindanao for the purchase of 5,000 sq. m. of industrial land and lease of tanks with 3 million liters. Natura Mindanao is a fuel additive producer.

In January 2013, we will start construction of material receiving facility in Phase II as logistics support for the operation of SLTEC's 2 x 135 MW power plant. Construction is expected to be completed within 16 months.

CHELSEA SHIPPING CORPORATION (CSC)

In September, Phoenix Petroleum acquired the entire outstanding capital stock of Chelsea Shipping Corporation from Udenna Management & Resources Corp., making CSC a wholly-owned subsidiary of PPPI.

The acquisition ensures control of product supply and minimizes and eliminates potential risk of current and future supply and distribution disruptions due to scarcity of tanker vessels.

Incorporated in 2006, CSC currently has 10 vessels in its fleet, two of which serve the regional trade route. The largest Philippine-registered oil tanker, M/T Chelsea Thelma, at 14000 DWT was inaugurated in March.

Also in March, CSC marked a milestone of 1 million man-hours without lost time incident. This is managed by Chelsea Ship Management and Marine Services Corp., a wholly-owned subsidiary of CSC, which is engaged in the business of ship management and providing other marine services to vessel owners in line with international standards.

In December, CSC became fully compliant with the double bottom - double hull requirements of the Maritime Industry Authority (MARINA) for its entire fleet, with the completion of the dry-docking of M/T Ernesto Uno.

Chelsea Shipping has a total fleet size of 19,561 GRT, making it one of the top 5 major petroleum tanker owners in the country. It serves Phoenix Petroleum, Cebu Pacific Air, National Power Corporation, and the US Navy in Subic, among other large companies.

The Phoenix Petroleum terminal at the Phoenix Petroterminal and Industrial Park in Calaca, Batangas

CHELSEA SHIPPING CORP.

M/T Chelsea Thelma, inaugurated in March, is the largest Philippine-registered oil tanker at 14000 DWT

REVIEW OF OPERATIONS
ENABLING A STRONG COMPANY

Phoenix Petroleum President and CEO Dennis Uy and CFO Joseph John Ong with representatives of the arrangers and institutional lenders led by Penta Capital and China Bank at the signing ceremony for Phoenix Petroleum's P2.5-billion notes issue on November 8, 2012 at the Makati Shangri-la. Leading the officers are, in the front row, PentaCapital's President & CEO Jovencio Cinco (5th from left), EVP & Treasurer Jose Ma. De Leon (4th from left), China Bank's SEVP and COO Ricardo Chua (5th from right), SVP Rhodora Canto (3rd from right), and FVP Virgilio Chua (leftmost). PentaCapital and ChinaBank served as joint lead arrangers of the P2.5 billion 5-year fixed rate notes facility. A total of nine institutional lenders, led by China Bank, China Bank Savings and China Bank Trust Group as Trustee, subscribed to the issue.

Executives of Phoenix Petroleum and BDO after the signing of Php500 -million Convertible Corporate Note with Warrant Offering on July 11, 2012 at the Anvil, BDO Corporate Center in Makati. Seated from left are BDO Senior Assistant Vice President Marirose Fernando, BDO Capital & Investment President Eduardo Francisco, Phoenix Petroleum President and CEO Dennis Uy, BDO Senior Executive Vice President Walter Wassmer, and Phoenix Petroleum Chief Finance Officer Joseph John Ong. They are joined by other officers from BDO and Phoenix Petroleum

FINANCE

Financial capability and competence has been and continues to be a core strength and differentiator in the Phoenix success story.

In 2012 we raised a total of P4.3 billion in term loans from 12 different lenders, including a $24 million term loan from Maybank Labuan, Malaysia and a P2.5 billion corporate note. The P4.3 billion is the biggest amount ever raised by the company and likely the biggest ever raised by an independent oil company in a single year. The P2.5B corporate note was the biggest single loan ever raised by the company and likely the biggest raised by an independent.

In September, the Philippine Rating Services Corp. (Philratings) issued a PRS Aa minus rating for a possible P3 billion corporate note – another first for the company and probably the only independent to secure such a rating.

All these were accomplished in a far from ideal situation because of the Bureau of Customs issue, which was still unresolved at the time. In November, we were finally cleared by the Department of Justice (DOJ) of all charges for smuggling and other alleged violations of the Tariff and Customs Code of the Philippines. The DOJ found no unlawful importations based on the records we submitted against BOC's allegations. They also noted that the BOC failed to show that the subject importations were fraudulently made.

This vindication was especially important for the future as it affirmed the confidence, faith and loyalty of our financial partners. We will never forget their trust nor will we forget the integrity of the DOJ in dismissing these false charges.

INFORMATION TECHNOLOGY

We completed several telecoms upgrade including telecom linkages to all Phoenix storage points and offices. This included establishing new links for new depots like Cebu. We also improved monitoring over this Phoenix telecoms network.

In 2012 we embarked on the most important change journey for Phoenix – the Business Process Mapping (BPM) and Enterprise Resource Planning (ERP) Process and Systems kick-off.

The BPM has both tactical and strategic objectives.

The immediate tactical result will be the creation of new, highly efficient, integrated and value-creating Phoenix processes in the main areas of Sales and Distribution, Materials Management (Supply, Lubes Manufacturing, Inventory), and Finance. Moreover, the BPM project provides a body of strategic information and knowledge that will support corporate strategy development over the next few years.

REVIEW OF OPERATIONS
ENABLING A STRONG COMPANY

Each year we are adding knowledge and technical capability especially in the areas of marketing, brand development, and logistics to support the company's expansion

The implementation of the new ERP – SAP A1 was concurrently started off as well. With the new processes, the ERP is being configured to support the new robust processes to improve ways of working of all Phoenix users. The BPM-ERP is targeted for completion in October 2013.

The Business Process Mapping project kicked off in 2012 will create new, highly efficient, integrated and value-creating business processes

PEOPLE

People and knowledge have been the foundation of the Phoenix success story from the beginning. This past year we grew not only in numbers from 383 staff to 459 but we added extensively to our knowledge and technical capability especially in the areas of marketing, brand development and logistics to support the company's expansion. Four major initiatives were rolled out as part of our people development and culture-building: the first Team Satisfaction and Communication Survey, Rating the Boss survey, the Online Payroll System, and signing of the Integrity Pledge.

The PhoeniXtreme sportsfest builds teamwork, camaraderie, and friendship among the 459 members of Team Phoenix

The Integrity Pledge, signed by the President and CEO, is part of the Integrity Initiative. A project of the Makati Business Club and European Chamber of Commerce of the Philippines, the Integrity Pledge is a formal and concrete expression of commitment by companies to abide by ethical business practices and to support a national campaign against corruption.

We also engaged the entire Phoenix family in the activation of our new corporate vision and values, that is, to be an indispensable partner in the journey of everyone whose life we touch.

Our annual "I Love Phoenix" contest attracts the most creative representations – whether through artwork, poem, music, or video – of the team's passion for the Company

REVIEW OF OPERATIONS

BRAND OF RELIABILITY, VISION OF INDISPENSABILITY

The past 12 months and the next six months will see Phoenix continue to build a permanent foundation for the expression of our Phoenix brand. Based on a systematic and independent analysis of what we do, who we are, how we behave, and where we are going, the Phoenix Brand strategy is a permanent building block in the sustainability of our growth and value creation.

The past year's brand development focused heavily on corporate brand, as we built the retail outlet and commercial growth that allowed us to build the critical mass necessary to significantly expand our more consumer-targeted brand communications in the next 12 months.

Both Philippine and international opinion leaders and strategic relationships were successfully targeted as Phoenix achieved corporate recognition in awards and nominations in markets as diverse as Hong Kong and Singapore.

Brand Phoenix is being progressively implemented via an integrated, coordinated and seamless brand strategy across fuels, product brands, retail network, personnel and corporate operations.

In 2012 we adopted a new corporate vision that defines how we aspire to our relationships with our customers, our business partners, our shareholders, our employees and our community.

"To be an indispensable partner in the journey of everyone whose life we touch"

This vision also informs the brand expressions across the Phoenix brand platform.

Largely through promotions, events and sponsorships, the past year supported consumer and commercial sales and laid the foundation for an aggressive rollout of the Phoenix Consumer brand in 2013.

Last April, we launched our TVC "Locker" featuring Filipino boxing icon Manny Pacquiao, to reinforce the core ad campaign concept of the journey of a Filipino brand based on reliable values. The TVC was recognized with a Bronze at the Araw Values Award.

We launched the Phoenix Petroleum Unionbank Visa Credit Card, the first co-branded credit card from an independent oil company backed by the global authority of Visa. Credit card holders earn 3% fuel rebate, free P500 worth of fuel voucher when credit card is approved, 10% discount on Phoenix lubricants and services at Phoenix stations, discounts and exclusive perks at partner establishments, no annual fee on the first year, and easy payment term of up to 12 months installment at 0% interest for car insurance. This brand expression began the expansion of Brand Phoenix

Our Company's elegant and interactive booth won as Best Booth at the Franchise Asia 2012, the country's largest franchise event

World boxing icon Manny Pacquiao stars in our award-winning "Locker" TV advertisement

The Phoenix Unionbank Visa card gives card holders fuel rebate and free fuel voucher

The "Phoenix Gas Na, Good as Cash" national promo rewards motorists with a Phoenix Visa Cash Card loaded with P25,000 to P100,000

Actors Vic Sotto and Bong Revilla Jr. fuel up at a Phoenix station in the holiday hit "Si Enteng, Si Agimat, at si Ako" beyond the geographic limits of our retail outlets and product offering and into the personal and commercial financial activities of our most loyal customers.

This brand meaning was further extended through our Visa partnership by means of the national promo "Phoenix Gas Na, Good As Cash," from November 2012 to March 2013. Winners will receive a Phoenix Visa Cash Card loaded with P25,000 to P100,000.

Brand Phoenix moved further into the market's pop culture through our support of the Metro Manila Film Festival (MMFF), where we placed an intrusion in the family hit, "Si Enteng, Si Agimat at si Ako" starring Vic Sotto, Bong Revilla Jr., and Judy Ann Santos. This continues our participation in the MMFF, where in 2011 we supported the blockbuster "Enteng Ng Ina Mo."

EVENTS

Product-focused events provided visibility and highly-targeted brand promotion for Phoenix consumer products with strong emphasis on the very challenging lubricant consumers.

To promote our Lubricants products, we partnered with Suzuki Philippines for the second straight year as co-presenter of their National Motorcycle Drag Race Championship Series.

We officially engaged the multi-awarded V-Man Racing Team as partners in promoting Cyclomax in motorcycle circuit racing in Vismin, and Moto-X Davao in motocross races all over Mindanao.

We sponsored national and local car shows to promote the new Phoenix Accelerate Vega fully synthetic gasoline engine oil. We also held the 2nd Phoenix Cyclomax Motocyclo in Camarines Sur and Phoenix Motocross in Davao. In April, we presented the popular Trans Sport Show at Megamall.

In Davao City, the annual Araw ng Dabaw Phoenix Run in March and Kadayawan Phoenix Run in August were participated by thousands of runners. The Phoenix Open golf tournament and Trip Ko Phoenix Fuels Basketball Cup for under-16 also successfully promoted the company and our products.

Motocross races such as in Davao City and Naga showcase the power of our Lubricant products

Phoenix Petroleum presented the popular Trans Sport Show for car enthusiasts

The Trip Ko Phoenix Fuels Basketball Cup serves as a good training ground for young basketball players

The Phoenix Open golf tournament is the official golf event of the Araw ng Davao festival

The Phoenix Runs are participated by thousands of runners who run not just for fun but for a cause

PARTNERS IN COMMUNITY BUILDING

CORPORATE SOCIAL RESPONSIBILITY

Phoenix Philippines Foundation remains steadfast in our commitment to serve the community as their indispensable partners. In line with the national growth of Phoenix, in 2012, we expanded our programs in education, environment, health and safety, and outreach to serve more people in more communities across the nation.

In addition to our support for disaster relief and our direct CSR projects, in 2012 Phoenix took steps to institutionalize our national contribution to CSR and nation building. We accepted the offer to become a member of the Philippine Business for Social Progress (PBSP), the country's largest corporate-led social development foundation. We are honored to join the Philippines' most prestigious and responsible corporations and corporate leaders as a member of PBSP which has directly benefited over 5 million Filipinos and assisted over 6,400 social development projects through more than P7.6 billion in grants and development loans. We hope to expand our CSR involvement by partnering with other PBSP member companies for greater impact in communities.

In direct CSR programs Phoenix continues and expands its ongoing projects:

EDUCATION
CORPORATE SOCIAL RESPONSIBILITY

Under our **Adopt-a-School program** in Davao City, 401 students graduated from kindergarten from three of our adopted schools in 2012. The **Phoenix Livelihood Training Program,** which offers free classes on welding, electronics, electricity, hair science, and Sunday high school, produced 179 graduates.

We distributed P310,000 worth of elementary books to 28 public schools in Mindanao and Visayas. Our **Phoenix Libraries** in public schools in Davao, Zamboanga, and Aklan now total seven, with two new ones in Davao City.

In support of the **Poverty Alleviation Program** under the newly-implemented K-12 system, we turned over to the Department of Education in Davao region 1,170 Nail Care Training Kits for 23 public high schools.

We also joined the **Brigada Eskwela** annual cleanup project in our three adopted schools, and in five more schools in partnership with GMA Network.

We donated 160 gallons of paint to the **Care for School Chairs Program** of Tagum City. The program benefits public schools and hospitals nationwide by donating school chairs, blackboards, hospital beds, and cabinets. The furniture are made from confiscated illegal logs and are fabricated by the local government.

The Adopt-a-School Program enables pre-school children to study for free

The Phoenix Livelihood Training Program offers free courses such as welding, electronics, and electricity

In 2012, we distributed books to 28 public schools in Mindanao and Visayas as part of our Book Donation drive

Team Phoenix joins the Brigada Eskwela school cleanup program by painting classrooms and furniture

In 2012 we started our **adoption of a Philippine Eagle** for five years. This is in support of the Philippine Eagle Foundation's wildlife conservation program to replenish the wild eagle population threatened with extinction.

Under the adoption, we will grant an annual cash donation of P125,000 to be used to take care of the needs of the eagle, the operation and maintenance of the eagle's breeding facility, and the associated conservation research and campaigns of PEF.

Our adopted bird, the 'Phoenix Eagle,' is a 15-year-old male eagle that arrived in 2005 from Sultan Kudarat. The eagle had been shot, but with care gradually recovered.

Aside from the Eagle adoption, we continued with our **annual tree-planting**. We planted 10,000 seedlings and dispersed 5,000 tilapia fingerlings at our adopted riverbank at Davao River. Phoenix staff and volunteers from other organizations planted 5,000 narra and acacia seedlings as part of the Kadayawan Phoenix Run, where we pledged to plant one tree for every runner. Team Phoenix and Chelsea Shipping also planted narra and fire trees in Batangas.

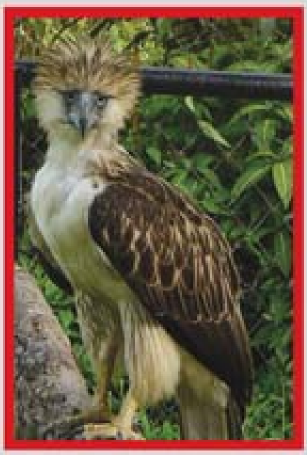
In Batangas and Davao, we organized a **coastal cleanup** with Team Phoenix, barangay officials, and students, parents, and teachers of our adopted schools.

We conducted the **Sea of Life Project** and released 50 artificial domes at Samal Island in Davao, in partnership with JCI Manila and JCI Davao.

Phoenix is also a signatory to the **Davao Gulf Oil Spill Contingency Plan** to prevent pollution in the Davao Gulf.

At the Phoenix Petroterminal and Industrial Park in Calaca, Batangas where we have a hatchery, our Pawikan Conservation Program continues to protect the endangered marine turtles. In 2012, we tagged and released 22 adult turtles to sea. Our assistance and incentive program rewards fisherfolks who turn over sea turtles.

We are working with the Protected Areas and Wildlife Bureau of the Department of Environment and Natural Resources to establish a satellite hatchery in Nonong Casto, Lemery, Batangas. A series of lectures, trainings and workshops on Pawikan Conservation will be shared to the coastal residents of Nonong Casto on the first quarter of 2013 to enable them to manage the conservation activities of the project.



Our adopted Philippine Eagle named Phoenix is a 15-year-old male eagle from Sultan Kudarat

In Batangas and Davao City, Team Phoenix plants trees in watershed and mangrove areas

Team Phoenix in Batangas and Davao regularly join the International Coastal Cleanup Day

Under our Pawikan Conservation Program, we tagged and released 22 adult turtles to sea in 2012

HEALTH AND SAFETY
CORPORATE SOCIAL RESPONSIBILITY

In 2012, our second heart patient at the Mindanao Heart Center was successfully operated on. This is part of our support to the Dr. Gerry Cunanan **Mindanao Heart Fund** at the Davao Medical Center, which aims to help poor children with heart disease whose families cannot afford the expensive operation. Our first patient in 2010 is now back in school. Our second patient, Melody Managta from Calinan, Davao City underwent a successful open heart surgery to treat her congenital heart disease on March. Now a healthy 8-year-old, Melody is preparing to go back to school in June 2013.

We extended our healthcare support by adopting the **Children's Ward and a Phoenix Children's Reading and Play Corner** at the Southern Philippines Medical Center.

We conducted four medical, dental, and surgical missions in General Santos, Tagum, Bacolod, and Compostela Valley, serving a total of 2,865 beneficiaries.

In partnership with the Philippine Red Cross, we organized seven **bloodletting** activities in Mindanao, collecting a total of 518 bags or 217,560 cc of fresh blood.

As part of our **road safety advocacy** and that of the Philippine National Police, we turned over 200 pieces of reflectorized motorcycle vests to the Davao City Police Office.

Eight-year-old Melody Managta from Davao City after her successful heart operation by the Mindanao Heart Fund, supported by Phoenix Philippines Foundation

Our medical, dental, and surgical missions in Mindanao and Visayas benefited 2,865 patients

OUTREACH

In the wake of Typhoon Pablo that destroyed towns in Compostela Valley and Davao Oriental in December, we immediately organized disaster relief operations. In four batches, we gave P850,000 worth of goods, together with our partner organizations.

Our annual Christmas Gift Giving for Kids in Davao City made the season a more joyous one for 35 cancer patients at the House of Hope and 300 children in Bo. Obrero.

For the Christmas Gift Giving this year, we gave school bags and school supplies to children

AWARDS AND RECOGNITIONS

We are justifiably proud and honored by the many awards and recognitions for Phoenix Petroleum and individual members of the Phoenix family. These awards not only signal excellence and competence, they also validate our strategy for development and growth.

While these awards and recognitions may be awarded to individuals or specific parts of the Phoenix family, we consider the recognition of any one of us as recognition of all.

The Phoenix family of customers, employees, business partners and shareholders has a common future: a future that shares a vote of confidence as expressed in the awards and recognitions we receive.

In 2012, the Company received the following honors:

BUSINESS

- **Best Independent Oil Company in Asia** by World Finance magazine in its 2012 Oil & Gas Awards. The annual Awards is given "in recognition of those companies that have successfully weathered the tough economic conditions while ensuring the continuing success of the industry." The London-based magazine cited the awardees "for their forward thinking, business acumen, and services to the oil and gas industry."
- **Top 7 Importer in the Philippines**, awarded by the Bureau of Customs, for paying a total of P4.733 billion in import taxes to the government. Phoenix Petroleum became the fourth biggest importer, after the major companies. In 2011, Phoenix was also the Top 7 Importer, paying P3.69 billion in duties and taxes.
- **Top 1 Importer in the Port of Davao City**, awarded by the Bureau of Customs. Phoenix Petroleum paid P1.28 billion in duties and taxes for CY 2012. This is the second consecutive year for the Company as Top Importer / Taxpayer in Davao.
- **Top 10 Importer in the Port of Cagayan de Oro** for CY 2012
- **Top 10 Importer in the Port of Batangas** for 2011
- **Top 2 Taxpayer in the City of Cebu** among Supplier of Goods and Services for CY 2011

MANAGEMENT

- President and CEO Dennis Uy a finalist in the **11th Asia Business Leaders Award** (ABLA) by CNBC Asia. This is the second consecutive year that Uy was recognized by ABLA.
- President and CEO Dennis Uy a finalist in the **Entrepreneur of the Year 2012 Philippines** organized by Ernst & Young

BUSINESS

Phoenix Petroleum was recognized as the Top 7 Importer in the Philippines in 2012, becoming the fourth largest importer among oil companies after the majors

Best Independent Oil Company in Asia, awarded by London-based World Finance magazine

Top 2 Taxpayer in the City of Cebu

MANAGEMENT

President and CEO Dennis Uy was a finalist at the 11th Asia Business Leaders Award for the second consecutive year

Uy was also a finalist in the Entrepreneur of the Year 2012 Philippines

AWARDS AND RECOGNITIONS

- Uy a finalist in the **4th Asia Pacific Young Entrepreneur Award** by the Confederation of Asia-Pacific Chambers of Commerce and Industry (CACCI), with awarding held in Kathmandu, Nepal

FINANCE

- One of the **best managed small-cap companies** in the Philippines, cited by Finance Asia. The Hong Kong -based magazine polled 256 investors and analysts across Asia and released the results on May 16, 2012 of the "best managed" companies and CEOs. Finance Asia is Asia's leading financial publishing company, covering the region's capital and banking markets.

SALES

- One of **Best Franchise Brands** by BPI Family Bank. Their Ka-Negosyo Best List is their seal of approval "to franchise brands that observe superior financial soundness, strong technical and marketing support for its franchisees, and transparency in business practice."

BRAND

- Bronze Award for "Locker" TV Commercial at the **Araw Values Award,** which recognizes values-oriented branded communications and advocacy advertising
- Finalist, Best TV Advertisement-Branded for "Locker," **Catholic Mass Media Awards**
- Best Booth (Non-Food 54-sq-m category), **Franchise Asia Philippines 2012.** Asia's biggest franchise event recognized Phoenix Petroleum "for excellence in brand promotion and franchisee recruitment through booth design and aesthetics."

COMMUNICATION

- Finalist citation from the **Philippine Quill Awards** for the Company's SOAR magazine. The Philippine Quill honors the best in communication management, skills, and creatives. It is conferred by the International Association of Business Communicators (IABC) Philippine chapter.

SPORTS

- **Sports Leadership Award** given to President/CEO Dennis Uy by the So Kim Cheng Foundation and Davao City Sports Council for his "outstanding leadership in organizing various sports events in Davao City and in Region XI and for unselfishly supporting local sports and athletes."

FINANCE

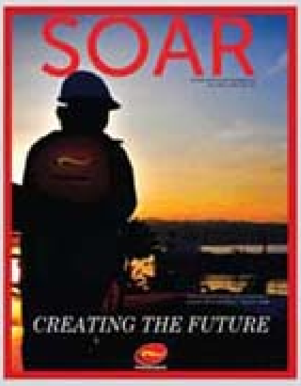
Phoenix Petroleum receives the citation as one of the best small cap companies in the Philippines from Finance Asia

BRAND

Our "Locker" TV advertisement featuring Manny Pacquiao won Bronze at the Araw Values Award

Our booth at the Franchise Asia expo bested others to win the Best Booth for the Non-Food 54-sq-m category

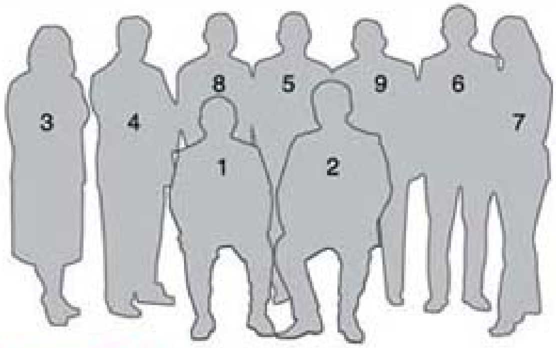
COMMUNICATION



Our internal SOAR magazine received a Finalist citation from the prestigious Philippine Quill Awards for business communication

BOARD OF DIRECTORS

BOARD OF DIRECTORS



1 **Domingo T. Uy**
Chairman

Domingo T. Uy, Filipino, 66 years old, is a co-founder and has been a member of the Board of Directors of the Company since 2002. Mr. Uy was elected Chairman of the Board of Directors of the Company on February 15, 2007. He is also a Director of Granland Resources Corporation, a corporation involved in real estate development. Mr. Uy is actively involved in socio-civic programs and is a Director of the Philippine Red Cross - Davao Chapter. He is the Vice Chairman of the Board of Trustees of the Davao Central High School. He is also the Past President of the Davao City Sta. Ana Lions Club and the Kang Ha Uy Association - Davao Chapter.

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

Dennis A. Uy, Filipino, 39 years old, is the founder of PPPI and has served as President and Chief Executive Officer since inception. He is the Chairman and President of Phoenix Petroleum Holdings, Inc., the holding company of PPPI, and Udenna Corporation, the ultimate parent company of PPPI. The subsidiaries of PPPI are Chelsea Shipping Corporation, Phoenix Petroterminal and Industrial Park, Subic Petroleum Trading & Transport Philippines, PFL Petroleum Management, and Phoenix Global Mercantile, Inc. Among the subsidiaries of Udenna Corporation are Udenna Management & Resources Corp, One Subic Power, Global Synergy Trade and Distribution Corp., Udenna Development Corporation, Value Leases, Inc., Udenna Environmental Solutions, and Udenna Energy Corporation. Mr. Uy is also Chairman of F2 Logistics, Phoenix Philippines Foundation, Inc. and Udenna Foundation, Inc. He is a member of the Young Presidents Organization - Philippine chapter and the Philippine Business for Social Progress. Mr. Uy is the Honorary Consul of Kazakhstan to the Philippines since November 2011. He is a graduate of De La Salle University with a degree in Business Management.

3 **Atty. Socorro T. Ermac-Cabreros**
Corporate Secretary

Socorro T. Ermac-Cabreros, Filipino, 47 years old, was elected Director and appointed Corporate Secretary on February 15, 2007. She is concurrently Asst. Vice President for Corporate Legal of PPPI. She is also the Corporate Secretary and member of the Board of Directors of Udenna Corporation and its subsidiaries. Prior to joining the Company, she was a Legal Counsel of Philippine National Bank in Davao City. She has worked for the government such as Office of the Ombudsman for Mindanao and later as Prosecutor for the Province of Davao del Norte after engaging in the private practice of law. She finished her law degree at the Ateneo de Davao University College of Law. She is the immediate past Vice President for the Davao City Chapter of the Integrated Bar of the Philippines.

4 **Romeo B. De Guzman**
Director

Romeo B. De Guzman, Filipino, 63 years old, was elected Director of PPPI in 2009. He is Chief Operating Officer of the company, 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 and a member of the Board of Directors up to Dec. 2006. He was with the said company holding various management and executive positions. He also worked with Getty Oil Philippines Inc. for 10 years, prior to joining Pilipinas Shell. He carries with him a Marketing Management and an MBA degree from San Sebastian College – Manila.

5 **Jose Manuel R. Quimson**
Director

Jose Manuel R. Quimson, Filipino, 64 years old, has been a Director of PPPI since 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 has more than 30 years of work experience in the shipping industry.

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

J.V. Emmanuel A. De Dios, Filipino, 48 years old, was elected Independent Director of PPPI on February 15, 2007 and regular director on March 7, 2008. He is the CEO of GE Philippines, and prior to that was President and CEO of Nido Petroleum Pty Ltd., an Australian Stock Exchange-listed oil and gas company. He was Managing Director of Merritt Advisory Partners, Inc. and was a member of the Board of Directors of Davies Energy Systems, Inc. He also served as Chairman of the Board of the Philippine National Oil Company Exploration Corporation and was former Undersecretary of the Philippine Department of Energy. Atty. De Dios obtained his Master of Laws degree from Harvard Law School and completed his Bachelor of Laws at the Ateneo School of Law.

7 **Diane Pardo-Aguilar**
Director

Diana Pardo-Aguilar, 49 years old, was elected Director of PPPI on December 3, 2010 as the representative of the Social Security System. She was appointed SSS Commissioner on August 2010, currently chairs the Investment Oversight Committee and is a member of the Audit Committee. She sits as Board Director in many other institutions engaged in Banking, E-Commerce, Food and Retail, Real Property Management and Education. Ms. Pardo-Aguilar possesses wide experience in investment banking, from her various stints with CLSA Exchange Capital Corporation, Exchange Capital Corporation and Jardine Fleming Exchange Capital Corporation. She holds a Masters Degree in Business Administration, major in International Finance from Pepperdine University in California and is a Computer Science graduate from the De La Salle University.

8 **Ricardo S. Pascua**
Independent Director

Ricardo S. Pascua, Filipino, 64 years old, has been Independent Director of PPPI since February 15, 2007. He is Chairman of the Board of Caelum Developers, Facilities and Property Mgmt Technologies, and Lucena Biodiesel Energy Corporation. He was formerly Vice Chairman, President and Chief Executive Officer of the Metro Pacific Corporation and the Fort Bonifacio Development Corporation.

9 **Monico V. Jacob**
Independent Director

Monico V. Jacob, 67 years old, has been Independent Director of PPPI since March 7, 2008. He is President and CEO of the STI Education Systems Holdings, Inc., a publicly listed company, STI Education Services Group, STI Investments, Inc., Philplans First, Inc., Philhealthcare, Inc., Philippine Financial Assurance Corporation, and Total Consolidated Asset Management, Inc. He is Chairman of the Global Resource for Outsourced Workers (GROW), Inc. and a Partner of the Jacob and Jacob Law Firm. He was formerly Associate Commissioner of the Securities and Exchange Commission, General Manager of National Housing Authority, and CEO of the Pag-Ibig Fund. Mr. Jacob is a former Chairman and Chief Executive Officer of Petron Corporation and of the Philippine National Oil Company.

Advisor to the Board:

Stephen A. CuUnjieng
Senior Managing Director of Evercore Partners and Chairman of Evercore Asia Limited

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.

On April 1, 2011, the Company disclosed and submitted to the Commission and the Exchange a Revised Corporate Governance Manual pursuant to the SEC Memorandum Circular No. 6 Series of 2009 which shall now apply to registered corporation that have assets in excess of Fifty Million Pesos and whose equity securities are listed on an Exchange.

BOARD STRUCTURE AND PROCESS

Key Roles

Under the Revised Corporate Governance Code, corporate governance continues to rest on the Board of Directors. Not only should the terms and conditions as stated in the previously adopted Manual adhere to transparency and accountability to consequently enhance shareholder's value but likewise the Board of Directors will be primarily responsible for setting the polices for the accomplishment of the corporate objectives by providing an independent check on Management.

Consistent with the amendment of its Corporation's By-laws, the Revised Code now acknowledges the composition of the Board of Directors from 5 to 9 members with at least 20% consisting of independent directors. Currently, the Board has 2 independent directors which competently complies with the said Code.

The duties and functions of the Board of Directors more specifically lay out a detailed and minute management of the Corporation's affairs from providing for its mission, vision, policies, mechanism for effective monitoring of management's performances, establishment of programs that can sustain its long term viability and strength to effective implementation in the selection of directors that can add value and contribute independent judgment to the formulation of sound corporate strategies and policies, effective adoption of a system of check and balance within the Board and a regular review of such system to ensure the integrity of the decision-making.

Effectively the function of the Board of Directors has expanded to ensure a more comprehensive monitoring of the implementation of its policies to ensure and foster the success of the Company and sustain its competitiveness and profitability in a manner consistent with its corporate objectives and protects the best interest of its stakeholders.

Internal Control for the corporation is likewise emphasized from Chief Executive Officer who shall be ultimately accountable to the Corporation's organizational and operations control.

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 on 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 since 2008.

Composition

Corporate powers and governance of the Company is exercised by the Board of Directors which consists of nine (9) 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.

On March 08, 2012, the stockholders elected the following stockholders to the Board of Directors namely: DOMINGO T. UY, DENNIS A. UY, ROMEO B. DE GUZMAN, DIANA PARDO AGUILAR, J.V. EMMANUEL A. DE DIOS, JOSE MANUEL R. QUIMSON, SOCORRO ERMAC CABREROS, MONICO V. JACOB AND RICARDO S. PASCUA.

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 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 nine 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 2012, the Board conducted five meetings.

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

Board of Directors

Names of Director	Jan. 31 2012	Feb. 8 2012	Mar. 8 2012	Jul. 6 2012	Nov. 22 2012
Domingo T. Uy	P	P	P	P	P
Dennis A. Uy	P	P	P	P	P
Jose Manuel R. Quimson	P	P	P	P	P
Romeo B. De Guzman	P	P	P	P	P
Socorro T. Ermac Cabreros	P	P	P	P	P
J.V. Emmanuel A. De Dios	P	P	P	P	P
Diana Pardo Aguilar	P	P	A	P	P
Ricardo S. Pascua	P	P	P	P	P
Monico V. Jacob	P	P	P	P	A

P = Present A = Absent

Committee Members

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

Name	Executive Committee	Nomination Committee	Audit Committee	Compensation Committee
Domingo T. Uy	C		M	M
Dennis A. Uy	M			C
Romeo B. de Guzman	M			
Jose Manuel R. Quimson		M		
J.V. Emmanuel A. de Dios		C	M	
Diana Pardo Aguilar		M		
Socorro Ermac Cabreros	M			
Monico V. Jacob			C	
Ricardo S. Pascua				M

Two of the management officers are members of certain committees by reason of their functions, namely:

1. Atty. Alan Raymond T. Zorrilla, Vice President for External Affairs is a member of the Nominations committee
2. Mr. Joseph John L. Ong, Chief Finance Officer is a member of the Compensation Committee

C = Chairman M = Member N/A = Not Applicable

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
2012	2,740.06
2011	4,015.19

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, identifying, 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.

Internal Audit

In 2010, the Company established the Internal Audit to assist the Audit Committee of the Board in fulfilling its oversight responsibility to the shareholders by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and internal control processes.

The Internal Audit's role and responsibilities are defined in the Audit Charter approved by the Board of Directors. In fulfilling its role, the Internal Audit performs the following general functions:

- Evaluating the Company's governance processes including ethics-related programs;
- Performing an objective assessment of the effectiveness of risk management and internal control framework, identifying risk exposures and recommending strategies to mitigate them;
- Evaluating the reliability and integrity of financial statements and the financial reporting process;
- Analyzing and evaluating business processes and associated controls;
- Determining compliance with applicable laws and regulations.

MANAGEMENT TEAM

Joseph John L. Ong
Chief Finance Officer

Socorro Ermac-Cabreros
AVP for Corporate Legal

Dennis A. Uy
President and CEO

Alberto D. Alcid
AVP for Lubricants

William M. Azarcon
AVP for Depot, Engineering, and Operations

Jose Victor L. Cruz
AVP for Retail Sales Luzon

Edgardo A. Alerta
AVP for Commercial Fuel Sales Mindanao

Jose Roel C. Cruz
AVP for Retail Fuel Sales Visayas and Mindanao

Rebecca Pilar C. Caterio
AVP for Credit and Collection

Romeo B. De Guzman
Chief Operating Officer

Chryss Alfonsus T. Damuy
VP for Finance

Joselito G. De Jesus
AVP for Commercial Fuel Sales
Luzon and Visayas

Alan Raymond T. Zorrilla
VP for External Affairs,
Business Development,
and Security

Jose Manuel R. Quimson
General Manager for
Phoenix Petroterminal
and Industrial Park

Reynaldo A. Phala
AVP for Treasury

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

PHOENIX
Fuels Life

The management of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries (the Company), is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012, 2011 and 2010 in accordance with Philippine Financial Reporting Standards, including the following additional components attached therein:

a) Supplementary schedule required under Annex 68-E of the SRC
b) Reconciliation of retained earnings available for dividend declaration
c) Map showing the relationship between and among related entities
d) List of standards and interpretations under Philippine Financial Reporting Standards as of December 31, 2012

This responsibility includes designing and implementing internal controls 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.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

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

DOMINGO T. UY	**DENNIS A. UY**	**JOSEPH JOHN L. ONG**
Chairman of the Board	President and Chief Executive Officer	Chief Finance Officer

Punongbayan & Araullo

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of P-H-O-E-N-I-X Petroleum Philippines, Inc. and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2012, 2011, and 2010, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries as of December 31, 2012, 2011 and 2010, and of their consolidated financial performance and their cash flows for each of the three years in the period ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 3671457, January 2, 2013, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-1 (until August 25, 2013)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-22-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

February 8, 2013

Certified Public Accountants
PL&A is a member firm within Grant Thornton International Ltd.

Offices in Cebu, Davao, Cavite

BOA/PRC Cert. of Reg. No. 0002
SEC Group A Accreditation No. 0002-FR-3

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Philippine Pesos)

ASSETS	Notes	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
CURRENT ASSETS				
Cash and cash equivalents	6	P 438,510,937	P 924,008,515	P 615,860,623
Trade and other receivables - net	7	3,557,002,879	2,865,485,431	2,556,384,913
Inventories	8	3,688,759,676	2,132,622,405	1,051,658,928
Land held for sale and land development costs	9	502,030,559	451,587,118	451,587,118
Due from related parties	25	8,300,000	26,311,686	20,009,114
Restricted deposits	10	82,694,029	69,036,837	73,422,716
Input value-added tax - net		392,968,622	226,507,521	27,539,110
Prepayments and other current assets	11	296,735,523	206,209,945	86,039,926
Total Current Assets		8,967,002,225	6,901,769,458	4,882,502,448
NON-CURRENT ASSETS				
Installment contract receivable		-	9,002,788	18,005,640
Land held for future development	13	289,078,227	271,981,834	315,874,750
Property and equipment - net	12	6,998,785,817	5,572,270,773	3,886,113,017
Goodwill	15	84,516,663	85,783,624	83,638,948
Other non-current assets	14	167,807,348	117,847,917	89,872,487
Total Non-current Assets		7,540,188,055	6,056,886,936	4,393,504,842
TOTAL ASSETS		P 16,507,190,280	P 12,958,656,394	P 9,276,007,290
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Interest-bearing loans and borrowings	16	P 4,119,347,152	P 4,031,200,956	P 2,957,886,252
Trade and other payables	17	1,547,105,184	3,083,587,717	1,926,103,478
Due to related parties	25	85,551,745	37,077,904	53,898,687
Total Current Liabilities		5,752,004,081	7,151,866,577	4,937,888,417
NON-CURRENT LIABILITIES				
Interest-bearing loans and borrowings	16	5,795,974,645	1,846,117,207	1,076,337,872
Due to related parties	25	-	24,102,695	91,167,021
Deferred tax liabilities - net	24	114,004,950	8,917,909	22,878,090
Other non-current liabilities	18	344,755,293	216,689,056	69,124,242
Total Non-current Liabilities		6,254,734,888	2,095,826,867	1,259,507,225
Total Liabilities		12,006,738,969	9,247,693,444	6,197,395,642
EQUITY	26			
Common stock		906,059,416	661,123,014	548,075,739
Preferred stock		5,000,000	5,000,000	5,000,000
Additional paid-in capital		2,051,723,794	2,051,723,794	2,051,723,794
Revaluation reserves		294,152,102	73,957,965	121,056,606
Other reserves		(622,952,239)	(622,952,239)	(854,202,239)
Retained earnings		1,866,468,238	1,542,110,416	1,206,957,748
Total Equity		4,500,451,311	3,710,962,950	3,078,611,648
TOTAL LIABILITIES AND EQUITY		P 16,507,190,280	P 12,958,656,394	P 9,276,007,290

For further notes and discussions, see SEC 17-A Report at www.phoenixphilippines.com/investor-relations/disclosures/disclosures-for-2013/

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Philippine Pesos)

	Notes	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
REVENUES				
Sale of goods	25	P 34,080,171,520	P 27,073,793,112	P 14,544,604,182
Charter fees		201,813,941	133,482,323	228,093,378
Fuel service and other revenues		135,885,455	110,071,589	65,392,289
Rent and storage income	25, 29	113,295,479	76,051,056	45,680,378
Port revenues		54,385,910	57,579,514	45,789,816
		34,585,552,305	27,450,977,594	14,929,560,043
COST AND EXPENSES				
Cost of sales and services	19	31,961,749,413	25,327,617,229	13,245,268,747
Selling and administrative expenses	20	1,499,515,219	1,253,550,743	886,205,051
		33,461,264,632	26,581,167,972	14,131,473,798
OTHER INCOME (CHARGES)				
Finance costs	21	(518,221,415)	(346,537,077)	(398,539,914)
Finance income	21	24,629,351	21,928,387	24,482,196
Gain (loss) on sale of property - net	12	-	41,885,044	(36,609,384)
Others		16,133,556	15,033,237	981,155
		(477,458,509)	(267,690,409)	(409,685,947)
PROFIT BEFORE TAX AND PRE-ACQUISITION INCOME		646,829,165	602,119,213	388,400,298
PRE-ACQUISITION INCOME		-	(3,163,822)	-
PROFIT BEFORE TAX		646,829,165	598,955,391	388,400,298
TAX INCOME (EXPENSE)	24	(21,095,072)	(42,409,094)	24,421,558
NET PROFIT	27	625,734,093	556,546,297	412,821,856
OTHER COMPREHENSIVE INCOME				
Revaluation (reversal of revaluation) of tankers		331,807,097	(55,931,472)	(6,751,545)
Tax expense (income) on revaluation of tankers		(99,542,130)	16,779,443	2,025,464
		232,264,967	(39,152,029)	(4,726,081)
TOTAL COMPREHENSIVE INCOME		P 857,999,060	P 517,394,268	P 408,095,775
Basic and Diluted Earnings per share	27	P 0.63	P 0.55	P 0.44

For further notes and discussions, see SEC 17-A Report at www.phoenixphilippines.com/investor-relations/disclosures/disclosures-for-2013/

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Philippine Pesos)

	Note	Preferred Stock	Common Stock	Additional Paid-in Capital	Deposits on Future Stock Subscription	Treasury Shares- At Cost
Balance at January 1, 2012						
As previously reported		P 5,000,000	P 489,872,215	P 802,774,593	P -	P -
Prior period adjustments	30	-	171,250,799	1,248,949,201	-	-
As restated		5,000,000	661,123,014	2,051,723,794	-	-
Stock dividends		-	244,936,202	-	-	-
Cash dividends		-	-	-	-	-
Adjustments		-	200	-	-	-
Total comprehensive income for the year		-	-	-	-	-
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	-	-
Balance at December 31, 2012	26	P 5,000,000	P 906,059,416	P 2,051,723,794	-	-
Balance at January 1, 2011						
As previously reported	30	P 5,000,000	P 376,824,940	P 802,778,234	P -	P -
Prior period adjustments		-	171,250,799	1,248,949,201	-	-
As restated		5,000,000	548,075,739	2,051,727,435	-	-
Reclassification		-	3,641	(3,641)	-	-
Change due to the increase in capital stock of merged subsidiary prior to merger		-	-	-	-	-
Stock dividends		-	113,043,634	-	-	-
Cash dividends		-	-	-	-	-
Total comprehensive income (loss) for the year		-	-	-	-	-
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	-	-
Reversal of revaluation reserve of assets sold during the year		-	-	-	-	-
Balance at December 31, 2011	26	P 5,000,000	P 661,123,014	P 2,051,723,794	P -	P -
Balance at January 1, 2010						
As previously reported	30	P -	P 269,160,875	P 261,614,249	P 44,625,000	(P 17,252,140)
Prior period adjustments		-	171,250,799	1,248,949,201	-	-
As restated		-	440,411,674	1,510,563,450	44,625,000	(17,252,140)
Issuance during the year		5,000,000	-	541,163,985	-	17,252,140
Withdrawal during the year		-	-	-	(44,625,000)	-
Stock dividends		-	107,664,065	-	-	-
Reclassification		-	-	(3,641)	-	-
Cash dividends		-	-	-	-	-
Total comprehensive income (loss) for the year		-	-	-	-	-
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	-	-
Reversal of revaluation reserve of assets sold during the year		-	-	-	-	-
Balance at December 31, 2010	26	P 5,000,000	P 548,075,739	P 2,051,723,794	P -	P -

	Other Comprehensive Income			
Other Reserves	Revaluation Reserves	Retained Earnings	Total	Total Equity
P -	P -	P 1,565,711,759	P 1,565,711,759	P 2,863,358,567
(622,952,239)	73,957,965	-	73,957,965	871,205,726
(622,952,239)	73,957,965	1,565,711,759	1,639,669,724	3,734,564,293
-	-	(244,936,202)	(244,936,202)	-
-	-	(92,112,242)	(92,112,242)	(92,112,242)
-	-	-	-	200
-	232,264,967	625,734,093	857,999,060	857,999,060
-	(12,070,830)	12,070,830	-	-
(P 622,952,239)	P 294,152,102	P 1,866,468,238	P 2,160,620,340	P 4,500,451,311
P -	P -	P 1,276,604,552	P 1,276,604,552	P 2,461,207,726
(854,202,239)	121,056,606	(69,646,804)	51,409,802	617,407,563
(854,202,239)	121,056,606	1,206,957,748	1,328,014,354	3,078,615,289
-	-	-	-	-
231,250,000	-	-	-	231,250,000
-	-	(113,043,634)	(113,043,634)	-
-	-	(108,349,994)	(108,349,994)	(108,349,994)
				-
-	(39,152,029)	556,546,297	517,394,268	517,394,268
				-
				-
-	(6,845,545)	-	(6,845,545)	(6,845,545)
				-
-	(1,101,067)	-	(1,101,067)	(1,101,067)
(P 622,952,239)	P 73,957,965	P 1,542,110,417	P 1,616,068,382	P 3,710,962,951
P -	P -	P 970,711,538	P 970,711,538	P 1,528,859,522
(854,202,239)	161,321,246	(55,255,151)	106,066,095	672,063,856
(854,202,239)	161,321,246	915,456,387	1,076,777,633	2,200,923,378
-	-	-	-	563,416,125
-	-	-	-	(44,625,000)
-	-	(107,664,065)	(107,664,065)	-
-	-	-	-	(3,641)
-	-	(13,656,430)	(13,656,430)	(13,656,430)
				-
-	(4,726,081)	412,821,856	408,095,775	408,095,775
-	(7,127,038)	-	(7,127,038)	(7,127,038)
-	(28,411,521)	-	(28,411,521)	(28,411,521)
(P 854,202,239)	P 121,056,606	P 1,206,957,748	P 1,328,014,354	P 3,078,611,648

For further notes and discussions, see SEC 17-A Report at www.phoenixphilippines.com/investor-relations/disclosures/disclosures-for-2013/

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Philippine Pesos)

	Notes	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 646,829,165	P 598,955,391	P 388,400,298
Adjustments for:				
Interest expense	21	467,358,205	294,510,418	310,829,813
Depreciation and amortization	12, 14	405,815,569	299,109,747	213,190,611
Impairment losses	21	37,851,057	27,252,323	56,530,443
Interest income	21	(9,406,440)	(7,834,039)	(6,211,527)
Operating profit before working capital changes		1,548,447,556	1,211,993,840	962,739,638
Decrease (increase) in:				
Trade and other receivables		(729,368,304)	(336,349,201)	(1,163,815,706)
Inventories		(1,556,137,271)	(1,080,963,476)	(593,734,513)
Land held for sale and land development costs		(50,443,441)	-	81,958,087
Restricted deposits		(13,657,192)	4,385,879	(14,523,112)
Input value-added tax		(166,461,101)	(198,968,411)	39,453,983
Other current assets		(90,525,578)	(120,170,019)	49,029,079
Installment contract receivable		9,002,788	9,002,852	(18,005,640)
Increase (decrease) in trade and other payables		(1,536,482,533)	1,157,484,239	574,977,337
Cash generated from (used in) operations		(2,585,625,076)	646,415,703	(81,920,847)
Cash paid for income taxes		(564,033)	(512,582)	(6,456,242)
Net Cash From (Used in) Operating Activities		(2,586,189,109)	645,903,121	(88,377,089)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net acquisitions of property and equipment	12	(1,612,136,476)	(2,032,366,144)	(812,921,544)
Decrease (increase) in other non-current assets		(48,692,300)	(30,120,106)	4,753,444
Collections from related parties	25	27,479,102	39,440,905	55,496,079
Increase (decrease) in land held for future development		(17,096,393)	43,892,916	-
Advances to related parties	25	(9,467,416)	(45,743,477)	(1,765,635)
Interest received		9,406,440	7,834,039	6,211,527
Net Cash Used in Investing Activities		(1,650,507,043)	(2,017,061,867)	(748,226,129)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in interest-bearing loans and borrowings		4,038,003,634	1,843,094,039	881,156,361
Interest paid		(467,358,205)	(294,510,418)	(310,829,813)
Increase (decrease) in other non-current liabilities		248,294,411	91,708,119	(77,159,337)
Borrowings from related parties	25	177,435,185	57,164,052	187,392,939
Repayments to related parties	25	(153,064,209)	(141,049,161)	(45,790,404)
Payments of cash dividends	26	(92,112,242)	(108,349,994)	(13,656,430)
Decrease (increase) in other reserves		-	231,250,000	(836,950,099)
Proceeds from issuance of shares of stock		-	-	1,249,287,941
Net Cash From Financing Activities		3,751,198,574	1,679,306,637	1,033,451,158
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(485,497,578)	308,147,891	196,847,940
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		924,008,515	615,860,623	419,012,684
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	P 438,510,937	P 924,008,515	P 615,860,623

Supplemental Information on Non-cash Investing and Financing Activities

Stock dividends declared and distributed by the Group amounted to P244.9 million in 2012, P113.0 million in 2011 and P107.7 million in 2010 (see Note 26.7).

On July 6, 2012, the Board of Directors of the Parent Company approved the acquisition of 100% shares of stock of Chelsea Shipping Corp. (CSC) via share-for-share swap. The agreed purchase price amounted to P1,578.0 million payable as 90% issuance of new common shares of the Parent Company and 10% cash. Accordingly, 171.35 million new common shares were issued in favor of Udenna Management & Resources Corp., a related party under common control (see Note 30). The acquisition of CSC is accounted for as business combination using pooling-of-interest method.

Certain hauling and heavy equipment with carrying amount of P25.5 million as of December 31, 2012 and nil in both as of December 31, 2011 and 2010 are carried under finance leases (see Notes 16.6 and 29.5).

The Group's tankers were revalued by an independent appraiser in each year from 2009. Revaluation reserves amounted to P294.1 million, P74.0 million and P121.1 million as at December 31, 2012, 2011 and 2010 (see Note 12.3).

For further notes and discussions, see SEC 17-A Report at www.phoenixphilippines.com/investor-relations/disclosures/disclosures-for-2013/

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, 2012, 2011 and 2010. The discussion should be read in conjunction with the audited consolidated financial statements and the 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, 2012, 2011 and 2010.

The Company's financial statements were audited by Punongbayan & Araullo for 2012, 2011 and 2010, in accordance with Philippine Financial Reporting Standards.

	As of and for the years ended December 31		
In P thousands, except for Per Share amounts	**2010**	**2011**	**2012**
Income Statement Data:			
Revenues...	14,929,560	27,450,978	34,585,552
Cost of sales...	13,245,269	25,327,617	31,961,749
Net profit...	412,822	556,546	625,734
Balance Sheet Data:			
Current Assets..	4,882,502	6,901,769	8,967,002
Non-current Assets.....................................	4,393,505	6,056,887	7,540,188
Total Assets...	9,276,007	12,958,656	16,507,190
Total Liabilities..	6,197,392	9,247,693	12,008,862
Earnings per Share-Adjusted..........................	0.44	0.55	0.63
Book Value per Share..................................	5.61	5.61	4.96

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS

ANALYSIS OF RESULTS OF OPERATIONS FOR 2012 AND 2011

Revenues

The Group generated total revenues of P34.586 billion in 2012 which is 26% higher than its comparative 2011 level of P27.451 billion. This was brought about by the 26% and 8.3% increase in sales volume of petroleum products and lubricants, respectively. Service revenue also posted an increase of 42% compared to immediately preceding year. There is no real estate sales recorded this year by the group compared to a realized P354 million real estate sales in its PPIPC industrial park in Calaca, Batangas in 2011.

Sales revenues from trading and distribution of petroleum products increased by 26% from P27.074 billion in 2011 to P34.080 billion in 2012 resulting principally from a wider distribution network and expanded institutional customer base. The 26% increase in sales volume accounts the increase in revenue. Average Means of Platts Singapore (MOPS), the benchmark for pricing of petroleum in the Philippines increased by 1.23% for Gasoil (benchmark for Diesel) and 2.41% for MOGAS92 (benchmark for Gasoline).

PPPI had three hundred (300) Phoenix Fuels Life retail service stations as of December 31, 2012 compared to two hundred twenty (220) as of December 31, 2011. A number of these service stations are yet to fully realize their potential peak sales volume, having been in operation for less than a year.

The Group generated P505 million from its fuels service (i.e. shipping, hauling and into-plane), lease of its storage facilities, Port Revenue and other service revenue in 2012 versus P377 million in 2011, or a 34% increase compared to last year. Ship Charter revenue accounts the biggest increase at P68 million or 51% percent increase compared to prior year. Storage and Service Revenue also increased by 49% and 23% respectively.

Cost and expenses

The Group recorded this year cost of sales of P31.962 billion, an increase of 26% compared to the 2011 figure of P25.328 billion. The increase was triggered by the 26% increase in volume weighted average cost at the same levels. The slight increase in product costs in 2012 was balanced by the sales mix.

Selling and administrative expenses' 23% increase is a result of the increasing volume and the ongoing expansion and growth of the Group's organizational build-out and business operations. Major items that increased out of this retail network expansion and increasing volume are rental, depreciation, travel and transportation, repairs, taxes and licenses and other expenses. The Parent Company is also continuously doing branding and promotional campaign which resulted to higher advertising expenses to improve brand awareness in the market.

Net Profit and Comprehensive Income

The Group's total net profit increased by 12% to P624 million during the year 2012 compared to P557 million for 2011. This is a result of the Group's growth on volume on all of its business segments and the integration of the net income of the newly acquired subsidiary, Chelsea Shipping Corporation.

Total Comprehensive Income increased 65% from P517 million in 2011 to P856 million in 2012 as accounted by the increase in net income and the effect of the revaluation of vessel tankers.

ANALYSIS OF FINANCIAL CONDITION AND BALANCE SHEET ACCOUNTS (AS OF DECEMBER 31, 2012 VERSUS DECEMBER 31, 2011)

Total resources of the Group as of December 31, 2012 stood at P16.507 billion, an increase of 27% over the P12.958 billion as of December 31, 2011.

Cash and cash equivalents decreased by 53% from P924 million to P439 million as part of the Group cash management to retain cash level for current operational requirements and bank accounts average daily balance.

The Group's liquidity position continued to hold strong with Current Assets reaching P6.902 billion as of December 31, 2012, up from P4.882 billion as of December 31, 2011.

Trade and other receivables increased by 24%, from P2.865 billion as of December 31, 2011 to P3.557 billion as of December 31, 2012 as a result of the increase in sales revenue in 2012 compared to the preceding year. The Company continues to exercise prudence in its credit policies in order to manage customer receivables risk. The receivable is spread over a number of industries and a number of clients.

Inventories increased by 73%, from P3.689 billion as of December 31, 2011 to P2.133 million as of December 31, 2011 as part of the Company's inventory management strategy. The Company maintains more or less one month of inventory to ensure stable supply in retail stations and commercial/industrial clients. In the comparative year it was in the level of around thirty five (35) days and twenty two (22) days inventory as of December 31, 2012 and December 31, 2011 cut-off. Inventory Costs per unit was also a slight factor of the inventory costs increase this year. In addition, in a period of rising fuel prices, it would be necessary to build commensurate levels of inventory to improve potential margins.

Land Held for Sale are parcels of subdivided lots owned by PPIPC, a wholly owned subsidiary of the PPPI. These lots are intended for sale to prospective buyers. The increase in 2012 from the 2011 value is for the development introduced this year. There are ongoing active negotiations with prospective buyers on some parcels of these lots.

Due from related parties net balance is payable of P77.3 million as of December 31, 2012 compared to a payable balance of P10.8 million in 2011. The Company's parent holding company and related party extended advances to support its cash requirement for its capital expenditures on a temporary basis to bridge immediate cash flow requirements.

Restricted deposits increased by 20% from P69 million in December 31, 2011 to P82.7 million in December 31, 2011 due to sinking set-up for dividend plus interest income to these deposits.

Input-VAT-net increased by 73% from P226.5 million in December 31, 2011 to P393 million in December 31, 2012. These are accumulation of input VAT, current and deferred as a result of the continuous capital expenditures of the Group and the increase in inventory equivalent input taxes.

Other current assets increased by 44% from P206.2 million in December 31, 2011 to P 296 million in December 31, 2012. These are prepayments on taxes, rentals on retail service stations and depot sites, creditable withholding tax and other various prepayments.

As of December 31, 2012, the Group's property and equipment, net of accumulated depreciation, increased to P6.999 billion compared to P5.572 billion as of December 31, 2011 as a result of the Company's continuous expansion of retail service stations, storage facilities, additional ship, capitalized dry-docking costs and other minor capital expenditures.

Land held for future developments are parcel of subdivided lot owned by the wholly owned subsidiary PPIPC. The balance is increased by 6% due to minor development introduced in the property. These lots may be sold at its current state or be developed for better selling prices which will yield better returns to the Group.

Total Loans and Borrowings increased by 69% from total P5.877 billion as of December 31, 2011 to P9.915 billion as of December 31, 2012. This is due to the financing for vessel double hulling, purchase of brand new vessel. The total loan amount is P214 million and US$14.5 million for the double hulling and purchase of brand new vessel respectively. In addition, the Parent Company availed of long term debts to refinance short term debts. Short term loans and borrowings are related to the financing of the inventory build-up and accounts receivable trade gapping.

Trade and other payables decreased by 50%, from P3.084 billion as of December 31, 2011 to P1.547 billion as of December 31, 2012 as trade payables at the end of the year are mostly booked under trust receipts. The increase in Other Payable was mostly payables to contractors and suppliers for construction of depots and retail stations.

Other non-current liabilities increased by 60% in December 31, 2012. Most of this is accumulation of Cash Bond placed by dealers and customers to secure their credit purchases.

Total Stockholders' Equity increased to P4.498 billion as of December 31, 2012 from P3.711 billion as of December 31, 2011 due to the issuance net income posted during the year. Increase Revaluation Reserve to P294 million contributed to the increase. This however was reduced by the effect of the P92 million cash dividend declared and distributed during the year to both common and preferred shareholders.

ANALYSIS OF RESULTS OF OPERATIONS FOR 2011 AND 2010

Revenues

The Group generated total revenues of P27.451 billion in 2011 which is 84% higher than its comparative 2010 level of P14.930 billion. This was brought about by the 52% and 8.5% increase in sales volume of petroleum products and lubricants, respectively. Service revenue posted a slight decline by 2% as a result of lower chartering revenue decline volume from third party with the increasing need of shipping within the Group. The group also realized P354 million real estate sales in its PPIPC industrial park in Calaca, Batangas.

Sales revenues from trading and distribution of petroleum products increased by 85% from P14.341 billion in 2010 to P26.508 billion in 2011 resulting principally from a wider distribution network and expanded institutional customer base. The 52% increase in sales volume is complemented by the increase in weighted average selling price by 22%, from P31.26 per liter in 2010 to P38.01 per liter in 2011. PPPI had two hundred twenty (220) Phoenix Fuels Life retail service stations as of December 31, 2011 compared to one hundred sixty one (161) retail stations as of December 31, 2010. The recently opened retail service stations are yet to fully realize their potential peak sales volume, having been in operation for less than a year.

The Group generated P377 million from its fuels service (i.e. shipping, hauling and into-plane), lease of its storage facilities, port revenue and other service revenue in 2011 versus P385 million in 2010, or a 2% decrease compared to last year. It includes revenue from port operation of P58 million and P45 million for 2011 and 2010 respectively on PPIPC, the 2009-acquired wholly-owned subsidiary.

Cost and expenses

The Group recorded this year cost of sales of P25.328 billion, an increase of 89% compared to the 2010 figure of P13.406 billion. The increase was triggered by the 52% increase in volume plus the higher average cost by 24.5%. Year 2011 average fuel cost is 35.94 per liter compared to 28.87 in 2010 driven by higher average crude prices and product sales mix factor.

Selling and administrative expenses increased as a result of the increasing volume and the ongoing expansion and growth of the Group's organizational build-out and business operations. Major items that increased out of this retail network expansion and increasing volume are rental, depreciation, travel and transportation, repairs, taxes and licenses and other expenses. The Parent Company is also continuously doing branding and promotional campaign which resulted to higher advertising expenses to improve on brand awareness in the market.

Net Profit and Total Income

The Group's total net profit increased by 35% to P555 million during the year 2011 compared to P413 million for 2010. This is a result of the Group's growth on volume on all of its business segments.

ANALYSIS OF FINANCIAL CONDITION AND BALANCE SHEET ACCOUNTS

(As of December 31, 2011 versus December 31, 2010)

Total resources of the Group as of December 31, 2011 stood at P12.959 billion, an increase of 40% over the P9.276 billion as of December 31, 2010.

Cash and cash equivalents increased by 50% from P615 million to P924 million due to higher revenue level during the current year and the need to retain cash on that level due to operational requirements.

The Group's liquidity position continued to hold strong with Current Assets reaching P6.902 billion as of December 31, 2011, up from P4.882 billion as of December 31, 2010.

Trade and other receivables increased by 12%, from P2.556 billion as of December 31, 2010 to P2.865 billion as of December 31, 2011 as a result of the increase in sales revenue in 2011 compared to the preceding year. The Company continues to exercise prudence in its credit policies in order to manage customer receivables risk. The receivable is spread over a number of industries and a number of clients.

Inventories increased by 103%, from P1.052 billion as of December 31, 2010 to P2.133 million as of December 31, 2011 as part of the Company's inventory management strategy. The Company maintains more or less one month of inventory to ensure stable supply in retail stations and commercial/industrial clients. Both the comparative year are in the level of around twenty two (22) days inventory as of December 31 cut-off. Prices are also a factor of the inventory costs increase this year. In addition, in a period of rising fuel prices, it would be necessary to build commensurate levels of inventory to improve potential margins.

Land Held for Sale are parcels of subdivided lots owned by PPIPC, a wholly owned subsidiary of the PPPI. These lots are intended for sale to prospective buyers. The level is the same as that of 2010 as the sold lots are coming from the undeveloped portion which was part of the Land Held for Future development under non-current assets. There are ongoing active negotiations with prospective buyers of these parcels of lot.

Due from related parties net balance is payable P10.766 million as of December 31, 2011 compared to a payable balance of P33.890 million in 2010. The Company's parent holding company extended advances to support its cash requirement for its capital expenditures on a temporary basis to bridge immediate cash flow requirements.

Restricted deposits decreased by 6% from P73.4 million in December 31, 2010 to P69 million in December 31, 2011. Some of the banks released restricted deposits which were previously required.

Input-VAT-net increased by 722% from P28 million in December 31, 2010 to P226 million in December 31, 2011. These are accumulation of input VAT, current and deferred as a result of the continuous capital expenditures of the Group.

Other current assets increased by 140% from P86 million in December 31, 2010 to P206 million in December 31, 2011.

These are prepayments on taxes, rentals on retail service stations and depot sites, creditable withholding tax and other various prepayments.

As of December 31, 2011, the Group's property and equipment, net of accumulated depreciation, increased to P5.572 billion compared to P3.886 billion as of December 31, 2010 as a result of the Company's continuous expansion of retail service stations, storage facilities, acquisition of land, purchase of vessel and other minor capital expenditures.

Land held for future developments are parcel of subdivided lot owned by the wholly owned subsidiary PPIPC. The balance is reduced by 14% as a result of the land sale realized by the Group this 2011. The remaining 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 46% from total P4.304 billion as of December 31, 2010 to P5.877 billion as of December 31, 2011. This is due to the P750 million corporate notes issue by the Group, and the increase in short term loans and borrowings that are related to the financing of the inventory build-up and accounts receivable trade gapping.

Trade and other payables increased by 60%, from P1.926 billion as of December 31, 2010 to P3.084 billion as of December 31, 2011 as a result of the inventory build-up of the Company using suppliers' credit as well as higher unit prices. The increase in Other Payable was mostly payables to contractors and suppliers for construction of depots and retail stations.

Other non-current liabilities increased by 213% in December 31, 2011. Most of this is accumulation of Cash Bond placed by dealers and customers to secure their credit purchases.

Total Stockholders' Equity increased to P3.711 billion as of December 31, 2011 from P3.079 billion as of December 31, 2010 due to the P510 million net income posted during the year. This however was minimized by the effect of the P108.3 million cash dividend declared and distributed during the year to both common and preferred shareholders. Revaluation of Vessels and CSC assets also affected the amounts for the Revaluation Reserves and other reserves amount.

Key Performance Indicators and Relevant Ratios

The Company's key performance indicators and relevant ratios and how they are computed are listed below:

	2012	2011	2010
Current Ratio[1]	1.56 : 1	0.97 : 1	0.99 : 1
Debt to Equity[2]	2.67 : 1	2.49 : 1	2.01 : 1
Return on Equity[3]	15%	16%	18%
Net Book Value Per Share[4]	4.96	5.61	5.61
Earnings Per Share-Adjusted[5]	0.62	0.55	0.44

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 net of preferred divided by the total number of shares issued and outstanding
5 - Net income after tax (net of Preferred dividend) divided by weighted average number of outstanding common shares adjusted to Stock dividends

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 debt to equity (DE) ratio for 2012 is 2.67:1 due to needed high level of inventory to support the sales requirement in the first month of 2013. The immediately preceding two years have been steady at 2.49:1 and 2.01:1 for 2011 and 2010 respectively. However, the DE for interest bearing liabilities is 2.21:1 and 1.57:1 for 2012 and 2011 respectively. The DE is expected improve this year out of the Group's projected income and various initiatives.

PRODUCT LIST

FUELS

Automotive Fuels
Diesel
Regular
Unleaded 93
Premium 95
Kerosene

Aviation Fuel
Jet A1

LUBRICANTS & SPECIALTIES

Gasoline Engine Oils
Accelerate Vega (4L, 1L)
Accelerate Supreme (18L, 4L, 1L)
Accelerate Supreme (200L)*

Diesel Engine Oils
ZOELO Extreme (200L, 18L, 4L, 1L)
ZOELO 15w-40 (200L, 18L)*
ZOELO 40 (200L, 18L, 4L, 1L)
ZOELO 30 (18L)
ZOELO 30 (200L)*
ZOELO Diesel Oil 40 (200L, 20L, 4L, 1L)
ZOELO Diesel Oil 30 (200L)
ZOELO Diesel Oil 10W (200L, 20L)

Motorcycle Oils
Cyclomax Titan (1L)
Cyclomax Titan (18L)*
Cyclomax Force (1L)
2T TA (200L, 20L, 1L, 200ml)
Cycle Fork Oil (200ml)

Other Automotive Engine Oils
Phoenix Oil SMO 30, 40 (1L)
Phoenix Oil SMO 30, 40 (200L)*

Transmission Oils
Gear Oil 90 (18L, 1L)
Gear Oil 90 (200L)*
Gear Oil 140 (200L, 18L, 1L)
Automatic Transmission & Power Steering Fluid (18L, 1L)
Automatic Transmission & Power Steering Fluid (200L)*

Automotive Greases
MP3 Grease (16KG, 0.5KG)
MP3 Grease (180KG)*
EP2 Grease (16KG)
EP2 Grease (180KG)*
EP2 Lithium Complex Grease (16 KG, 180KG)*

Industrial Oils
Hydraulic Oil 32 (18L, 200L)
Hydraulic Oil 46 (18L, 200L)
Hydraulic Oil 68 (18L, 200L)
Hydraulic Oil 100 (200L)*
Hydraulic Oil 220 (200L)*
Hydraulic Oil 460 (200L)*
Industrial Gear 150 (18L, 200L)*
Industrial Gear 220 (18L, 200L)*
Industrial Gear 320 (18L, 200L)*
Industrial Gear 460 (18L, 200L)*
Compressor Oil 68 (18L, 200L)*
Compressor Oil 100 (18L, 200L)*
Compressor Oil 150 (18L, 200L)*
Straight Cutting Oil (200L, 18L)*
Water-Soluble Cutting Oil (200L, 18L)*
Heat Transfer Oil (200L, 18L)*
Knit Oil 22 (200L)*
Turbine Oil 68 (200L)*
Rubber Process Oil (200L)
Manta Marine Engine Oils SAE 30 Series (Bulk, 200L)*
Manta Marine Engine Oils SAE 40 Series (Bulk, 200L)*
Nautilus Cylinder Oils 7050 (Bulk, 200L)*
Transformer Oil (200L)

Automotive Specialties
Brake & Clutch Fluid (900ml, 300ml, 170ml)
Brake & Clutch Fluid (200L, 18L)*
Tire Black (120ml)
All-Purpose Oil (120ml)
Radiator Coolant (1L)
Radiator Coolant (18L)*

**Products are made to order, blended and prepared for delivery in 3-4 days (in Luzon) and 10 days (in Visayas & Mindanao).*

GASOLINE ENGINE OILS

DIESEL ENGINE OILS

MOTORCYCLE OILS

OTHER AUTOMOTIVE ENGINE OILS

AUTOMOTIVE GREASE

AUTOMOTIVE SPECIALTIES

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CORPORATE OFFICES

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STOCK TRADING INFORMATION

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

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