16 February 2013

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

Dear ***Ms. Encarnacion:***

We would like to submit our recently concluded Audited Financial Statement for period ended 31 December 2012 as will be attached to our Definitive Information Statement (SEC Form IS-20). We shall be submitting our Annual Report (Sec Form 17-A) once completed.

Thank you and warm regards.

Very truly yours,

Atty. Socorro Ermac Cabreros
Corporate Secretary

Punongbayan & Araullo
An instinct for growth™

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 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 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 consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries as at December 31, 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 Aug. 25, 2013)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-22-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

February 8, 2013

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)

	Notes	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
A S S E T S				
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	**296,735,522**	206,209,945	86,039,926
Total Current Assets		**8,967,002,224**	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	**6,998,785,818**	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		**7,540,188,056**	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	1,926,103,479
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	4,937,888,418
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	6,197,395,643
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	1,206,957,747
Total Equity		**4,500,451,311**	3,710,962,950	3,078,611,647
TOTAL LIABILITIES AND EQUITY		**P 16,507,190,280**	P 12,958,656,394	P 9,276,007,290

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 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	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	412,821,855
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 408,095,774
Basic and Diluted Earnings per share	27	**P 0.63**	P 0.55	P 0.44

See Notes to Consolidated Financial Statements.

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

								Comprehensive Income			
	Note	Preferred Stock	Common Stock	Additional Paid-in Capital	Deposits on Future Stock Subscription	Treasury Shares - At Cost	Other Reserves	Revaluation Reserves	Retained Earnings	Total	Total Equity
Balance at January 1, 2012											
As previously reported		**P 5,000,000**	**P 489,872,215**	**P 802,774,593**	**P -**	**P -**	**P -**	**P -**	**P 1,565,711,759**	**P 1,565,711,759**	**P 2,863,358,567**
Prior period adjustments	30	**-**	**171,250,799**	**1,248,949,201**	**-**	**-**	**(622,952,239)**	**73,957,965**	**-**	**73,957,965**	**871,205,726**
As restated		**5,000,000**	**661,123,014**	**2,051,723,794**	**-**	**-**	**(622,952,239)**	**73,957,965**	**1,565,711,759**	**1,639,669,724**	**3,734,564,293**
Stock dividends		**-**	**244,936,202**	**-**	**-**	**-**	**-**	**-**	**(244,936,202)**	**(244,936,202)**	**-**
Cash dividends		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(92,112,242)**	**(92,112,242)**	**(92,112,242)**
Adjustments		**-**	**200**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**200**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**232,264,967**	**625,734,093**	**857,999,060**	**857,999,060**
Transfer of revaluation reserves absorbed through depreciation, net of tax		**-**	**-**	**-**	**-**	**-**	**-**	**(12,070,830)**	**12,070,830**	**-**	**-**
Balance at December 31, 2012	26	**P 5,000,000**	**P 906,059,416**	**P 2,051,723,794**	**P -**	**P -**	**(P 622,952,239)**	**P 294,152,102**	**P 1,866,468,238**	**P 2,160,620,340**	**P 4,500,451,311**
Balance at January 1, 2011											
As previously reported	30	P 5,000,000	P 376,824,940	P 802,778,234	P -	P -	P -	P -	P 1,276,604,552	P 1,276,604,552	P 2,461,207,726
Prior period adjustments		-	171,250,799	1,248,949,201	-	-	(854,202,239)	121,056,606	(69,646,805)	51,409,801	617,407,562
As restated		5,000,000	548,075,739	2,051,727,435	-	-	(854,202,239)	121,056,606	1,206,957,747	1,328,014,353	3,078,615,288
Reclassification		-	3,641	(3,641)	-	-	-	-	-	-	-
Change due to the increase in capital stock of merged subsidiary prior to merger			-	-	-	-	231,250,000	-	-	-	231,250,000
Stock dividends		-	113,043,634	-		-	-	-	(113,043,634)	(113,043,634)	-
Cash dividends		-	-	-	-	-	-	-	(108,349,994)	(108,349,994)	(108,349,994)
Total comprehensive income (loss) for the year		-	-	-	-	-	-	(39,152,029)	556,546,297	517,394,268	517,394,268
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	-	-	-	(6,845,545)	-	(6,845,545)	(6,845,545)
Reversal of revaluation reserve of assets sold during the year		-	-	-	-	-	-	(1,101,067)	-	(1,101,067)	(1,101,067)
Balance at December 31, 2011	26	P 5,000,000	P 661,123,014	P 2,051,723,794	P -	P -	(P 622,952,239)	P 73,957,965	P 1,542,110,416	P 1,616,068,381	P 3,710,962,950
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)	P -	P -	P 970,711,538	P 970,711,538	P 1,528,859,522
Prior period adjustments		-	171,250,799	1,248,949,201	-	-	(854,202,239)	161,321,246	(55,255,151)	106,066,095	672,063,856
As restated		-	440,411,674	1,510,563,450	44,625,000	(17,252,140)	(854,202,239)	161,321,246	915,456,387	1,076,777,633	2,200,923,378
Issuance during the year		5,000,000	-	541,163,985	-	17,252,140	-	-	-	-	563,416,125
Withdrawal during the year			-		(44,625,000)						(44,625,000)
Stock dividends		-	107,664,065	-		-	-	-	(107,664,065)	(107,664,065)	-
Reclassification		-	-	(3,641)	-	-	-	-	-	-	(3,641)
Cash dividends		-	-	-	-	-	-	-	(13,656,430)	(13,656,430)	(13,656,430)
Total comprehensive income (loss) for the year		-	-	-	-	-	-	(4,726,081)	412,821,855	408,095,774	408,095,774
Transfer of revaluation reserves absorbed through depreciation, net of tax								(7,127,038)	-	(7,127,038)	(7,127,038)
Reversal of revaluation reserve of assets sold during the year		-	-	-	-	-	-	(28,411,521)	-	(28,411,521)	(28,411,521)
Balance at December 31, 2010	26	P 5,000,000	P 548,075,739	P 2,051,723,794	P -	P -	(P 854,202,239)	P 121,056,606	P 1,206,957,747	P 1,328,014,353	P 3,078,611,647

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 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	962,739,637
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		(90,525,577)	(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)	1,157,484,238	574,977,338
Cash generated from (used in) operations		(2,585,625,075)	646,415,702	(81,920,846)
Cash paid for income taxes		(564,033)	(512,582)	(6,456,242)
Net Cash From (Used in) Operating Activities		(2,586,189,108)	645,903,120	(88,377,088)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net acquisitions of property and equipment	12	(1,612,136,477)	(2,032,366,144)	(812,921,544)
Increase in other non-current assets		(48,692,470)	(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		(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		(1,650,507,214)	(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 in other non-current liabilities		248,294,411	91,708,121	19,066,580
Borrowings from related parties		177,435,185	57,164,052	45,376,617
Repayments to related parties		(153,064,039)	(141,049,161)	-
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		3,751,198,744	1,679,306,639	1,033,451,156
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(485,497,578)	308,147,892	196,847,939
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).

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the Parent Company) was incorporated in the Philippines on May 8, 2002 and is 43% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines.

The Parent Company's shares of stocks are listed with the Philippine Stock Exchange (PSE). The Parent Company is presently engaged in trading of petroleum products on wholesale and retail basis and operating of gas stations, oil depots, storage facilities and allied services. The registered office of the Parent Company, which is also its principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

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

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

The Parent Company has a total of 300 service stations, including 88 service stations in Luzon, 21 in the Visayas and 191 in Mindanao operating as of December 31, 2012 and there are a total of 43 service stations under construction as of December 31, 2012.

1.2 Subsidiaries and their Operations

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

	2012	2011	2010
P-F-L Petroleum Management, Inc. (PPMI)	**100%**	100%	100%
P-H-O-E-N-I-X Global Mercantile, Inc. (PGMI)	**100%**	100%	100%
Phoenix Petroterminals & Industrial Park Corp. (PPIPC)	**100%**	100%	100%
Subic Petroleum Trading and Transport Phils., Inc. (SPTT)	**100%**	100%	-
Petroterminals Philippines Corporation (PPC)	**-**	-	100%
Petrologistix Services Corp. (PSC)	**-**	-	100%
Chelsea Shipping Corp. (CSC)	**100%**	100%	100%
Bunkers Manila, Inc. (BMI)*	**100%**	100%	100%
Michael, Inc. (MI)*	**100%**	100%	100%
PNX – Chelsea Shipping Corp. (PNX – Chelsea)*	**100%**	100%	100%
Chelsea Ship Management Marine Services Corp (CSMMSC)*	**100%**	100%	100%

** Wholly-owned subsidiaries of CSC*

All the subsidiaries were organized and incorporated in the Philippines.

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

PGMI was registered with SEC on July 31, 2006 to engage in the manufacture, production and creation of all kinds of motor, and all other transportation lubricants, fluids and additives of all kinds and other petroleum products purposely for motor vehicles and other transportation. PGMI has temporarily ceased its operation since 2008.

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

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

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

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

CSC was incorporated in the Philippines on July 17, 2006 and started commercial operations on January 1, 2007 and is engaged in maritime trade through conveying, carrying, loading, transporting, discharging and storing of petroleum products, goods and merchandise of every kind, over waterways in the Philippines.

BMI was registered with the SEC on March 7, 2000 to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines. Aside from international bunkering, BMI also ventures into hauling of marine fuel and petroleum products for major oil companies.

MI, which was registered with the SEC on December 26, 1957 and whose corporate life was approved to be extended for another 50 years by SEC on May 6, 2008, is engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule. MI is also engaged in the trading of fuel oil.

PNX – Chelsea was incorporated on February 2, 2011 and is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description. As of December 31, 2012, PNX - Chelsea has not yet started commercial operations.

CSMMSC was incorporated on March 30, 2012 to carry on the business of ship management and to act as agent, broker, ship chandler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.

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

The registered office of PGMI, CSC, BMI and PNX – Chelsea, which is also their principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

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

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

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

The registered address of CSMMSC, which is also its principal place of business, is located at the 26/F, Fort Legend Towers, 3rd Ave. corner 31st St., Bonifacio Global City, Taguig City.

1.1 Merger of PSC and PSC

On December 2, 2010, SEC approved the merger of PPC and PSC with the Company. Per application approved by SEC, the merger is effective on December 2, 2010. PPC and PSC were wholly-owned subsidiary of the Parent Company prior to merger.

1.2 Acquisition of CSC

On September 6, 2012, CSC became a wholly owned subsidiary of the Company upon the approval of the Parent Company's stockholders of the acquisition of the 100% of CSC's outstanding shares from Udenna Management Resources Corp. (UMRC), a related party under common control. The acquisition was initially approved by the Company's Board of Directors (BOD) on July 6, 2012.

1.3 Approval of Consolidated Financial Statements

The financial statements of the Parent Company and Subsidiaries (the Group) for the year ended December 31, 2012 (including the comparatives as of and for the years ended December 31, 2011 and 2010) were authorized for issue by the Parent Company's President and Chief Executive Officer on February 8, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

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

Certain items in the 2011 and 2010 consolidated financial statements of the Group have been restated in relation with the business combination brought about by the acquisition of CSC which is accounted for under pooling-of-interest method, hence, two comparative periods were presented for the consolidated statement of financial position (see Note 30).

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2012 that are Relevant to the Group

In 2012, the Group adopted the following amendments to PFRS that are relevant to the Company and effective for financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2012:

PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Transfer of Financial Assets
PAS 12 (Amendment)	:	Income Taxes – Deferred Tax: Recovery of Underlying Assets

Discussed below are the relevant information about these amended standards.

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

(ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset that arises from investment property measured at fair value under PAS 40, *Investment Property* should reflect the tax consequence of recovering the carrying amount of the asset entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretation Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12 requiring that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment* should always be measured on a sale basis of the asset. The amendment has no significant impact on the Group's consolidated financial statements as the Group's investment properties and land classified as property and equipment measured at fair value are taxable with the same rate regardless of whether these assets will be sold or used in operation.

(b) Effective in 2012 that are not Relevant to the Group

PFRS 1, *First-time Adoption of PFRS,* was amended to provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS consolidated financial statements or to present PFRS consolidated financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 but is not relevant to the Group's consolidated financial statements.

(c) Effective Subsequent to 2012 but not Adopted Early

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2012. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

(i) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects that this will change the current presentation of items in other comprehensive income (i.e., segregation of revaluation reserves on tankers under property and equipment). This however, will not affect the measurement or recognition of such items.

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

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

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

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

Currently, the Group is using the corridor approach and its unrecognized actuarial loss as of December 31, 2012 amounted to P12.1 million which will be retrospectively recognized as loss in other comprehensive income in 2013 (see Note 22).

(iii) Consolidation Standards

The Group is currently reviewing the impact on its consolidated financial statements of the following consolidation standards which will be effective from January 1, 2013:

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

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

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

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

Subsequent to the issuance of the foregoing consolidation standards, the IASB made some changes to the transitional provisions in IFRS 10, IFRS 11 and IFRS 12, which were also adopted by the FRSC. The guidance confirms that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

(iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation.* The amendment also requires disclosure of information about recognized financial instruments subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32, and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. The Group has initially assessed that the adoption of the amendment will not have a significant impact on its consolidated financial statements.

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

(vi) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

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

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

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

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address certain application issues.

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

(viii) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for opening statement of financial position

  If an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third statement of financial position.

  Other than disclosure of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory.

(c) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

2.3 Basis of Consolidation

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

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

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

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

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill (see Note 15). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain.

On the other hand, business combinations arising from transfers or acquisition of interests in entities that are under the common control of the shareholder that controls the Group are normally accounted for under the pooling-of-interests method and reflected in the financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities acquired are recognized in the Group's consolidated financial statements at the carrying amounts recognized previously. The difference between the consideration transferred and the net assets of the subsidiary acquired is recognized as Other Reserves as part of the equity.

2.4 Financial Assets

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

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

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

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

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

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

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

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

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

2.5 Inventories

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

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

2.6 Land Held for Sale and Land Development Costs

Land held for sale and land development costs are valued at the lower of cost and net realizable value. Land held for sale and land development costs includes the cost of land and actual development costs incurred up to the end of reporting period. Interest incurred during the development of the project is capitalized (see Note 2.21).

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

2.7 Prepayments and Other Current Assets

Prepayments and other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statement when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

2.8 Land Held For Future Development

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

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

2.9 Property and Equipment

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred, except for periodic dry docking costs performed at least every two years on the vessel which are capitalized (see Note 2.10).

Following initial recognition, tankers are carried at revalued amounts which represent fair values as determined by independent appraisers, less any subsequent accumulated depreciation and any accumulated impairment losses. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm’s length transaction as at the valuation date.

Any revaluation surplus is recognized in other comprehensive income and credited to the Revaluation Reserves account in the consolidated statement of changes in equity. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in profit or loss. Annually, an amount from the Revaluation Reserves is transferred to Retained Earnings for the related depreciation relating to the revaluation increment.

Upon disposal of the revalued assets, amounts included in Revaluation Reserves is transferred to Retained Earnings.

Revaluations are performed at least every two years ensuring that the carrying amount does not materially differ from that which would be determined using fair value at the end of reporting period, unless circumstances require annual revaluation.

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

Tankers	30 years
Vessel equipment	5 years
Buildings, depot and pier facilities	5-25 years
Transportation and other equipment	1-10 years
Hauling and heavy equipment	1-5 years
Gasoline station equipment	1-5 years
Office furniture and equipment	1-5 years

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

Hauling and heavy equipment held under finance lease agreements (see Note 2.16) are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of lease, if shorter.

Construction in progress represents properties under construction and on-going major repair works and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.20). The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

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

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

2.10 Dry Docking Costs

Dry docking costs are considered major repairs that preserve the life of the vessel. As an industry practice, costs associated with dry docking are amortized over 24 months or until the next dry docking occurs, whichever comes earlier. When significant dry docking expenditures occur prior to their expiry of this period, any remaining unamortized balance of the original dry docking costs is expensed in the month of subsequent dry docking.

Amortization of dry docking costs starts only when the process has been completed and the related vessel is ready for use.

The carrying amount of dry docking costs, presented as part of the Other Non-current Asset account in the consolidated statement of financial position, is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.18).

2.11 Financial Liabilities

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

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.20). All other interest related charges are recognized as an expense in the consolidated statement of comprehensive income under the caption Finance Costs.

Interest-bearing loans and borrowings are raised for support of long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

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

Obligations under finance lease (included as part of Interest-bearing Loans and Borrowings) are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of minimum lease payments, at the inception of the lease (see Notes 2.16 and 29.5).

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

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

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

2.12 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.13 Provisions and Contingencies

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

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

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

2.14 Business Combinations

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

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

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

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

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

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

Under the pooling-of-interest method, similar accounts of the entities are combined on a line-by-line basis except for the equity accounts which were offset with the new shares issued by the new entity in which the difference between the net assets received and the amount of the consideration issued (shares and cash) is accounted for as Other Reserves.

2.15 Revenue and Expense Recognition

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

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

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

(b) *Charter fees* – Revenue, which consists mainly of charter income arising from the charter hire of its tankers, is recognized based on the type of charter arrangement entered into, either under a time charter (TC) or a continuing voyage charter (CVC). Under a TC, revenue is recognized based on the terms of the contract [see Note 3.1(d)]. Under a CVC, revenue is recognized upon completion of the voyage; however, appropriate accrual of revenue is made at the end of the reporting period.

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

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

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

(f) *Port revenues* – Revenue is recognized when services are rendered.

Cost and expenses are recognized in the profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20).

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

2.16 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability

Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Finance lease obligations, net of finance charges, are included in Interest-bearing Loans and Borrowings account in the consolidated statement of financial position.

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

(b) Group as Lessor

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

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

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

2.17 Foreign Currency Transactions and Translations

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

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

2.18 Impairment of Non-financial Assets

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

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

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

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

2.19 Employee Benefits

(a) Post-employment Benefits

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

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

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

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

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(b) Compensated Absences

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

2.20 Borrowing Costs

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

2.21 Income Taxes

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

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

Deferred tax is accounted for using the liability method on temporary differences at the end of reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets, if any, are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.22 Related Party Relationships and Transactions

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

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

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

2.23 Segment Reporting

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

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 28 which represent the main products and services provided by the Group.

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

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

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

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

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

2.24 Equity

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

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

Revaluation reserves pertain to the revaluation increment and changes thereof (e.g. subsequent depreciation), net of tax, arising from the revaluation of the Group's tankers.

Other reserves pertain to the difference between the Parent Company's cost of investment and the net assets of CSC.

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

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

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

2.25 Earnings per Share

Basic earnings per share (EPS) is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

2.26 Events After the Reporting Period

Any post-year-end event that provides additional information about the Group's position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Distinction between Operating and Finance Leases

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

(b) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.13 and relevant disclosure is presented in Note 29.

(c) Qualifying Assets on Borrowing Costs

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

(d) Revenue Recognition for TC Arrangements

In determining the appropriate method to use in recognizing the Group's revenue from TC, management considers the following criteria: (1) whether the fulfilment of the arrangement is dependent on the use of a specific vessel; and, (2) whether the arrangement conveys a right to use the vessel. Management determined that if both criteria are met, the revenue should be recognized using the straight-line method over the term of the contract (see Note 2.15).

(e) Functional Currency

The Group has determined that its functional currency is the Philippine peso which is the functional currency of the primary economic environment in which the Group operates.

3.2 Key Sources of Estimation Uncertainty

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

(a) Allowance for Impairment of Trade and Other Receivables Due from Related Parties

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

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

(b) Determining Net Realizable Value of Inventories

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

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

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

(d) Useful Lives of Property and Equipment and Dry docking Costs

The Group estimates the useful lives of property and equipment and dry docking costs based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment and dry docking costs are analyzed in Notes 12 and 14, respectively. Based on management's assessment as at December 31, 2012, 2011 and 2010, there is no change in the estimated useful lives of the property and equipment and dry docking costs during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Fair Value of Tankers

In determining the fair value of the Group's tankers, the Group engages the services of professional and independent appraisers. The fair value is determined by reference to the market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the specific characteristics of the property (e.g. size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and value of the assets.

Based on management's review of the recorded fair value of the tankers as of December 31, 2012, 2011 and 2010, such fair value reasonably approximates the fair value based on the latest appraisal report or of those dates as determined by an independent appraisers (see Note 12.3).

(f) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2012, 2011 and 2010 will be fully utilized in the coming years. The carrying value of deferred tax assets as of December 31, 2012, 2011 and 2010 is disclosed in Note 24.

(g) Liability for Land Development

Obligations to complete development of real estate are based on actual costs and project estimates of contractors and Group's technical staff. These costs are reviewed at least annually and are updated if expectations differ from previous estimates. Liability to complete the project for sold units included in the determination of cost of sales are presented as part of accrued expenses under Trade and Other Payables account in the consolidated statements of financial position amounted to P1.0 million as of December 31, 2012 and 2011, and P1.1 million as of December 31, 2010. (see Note 17).

(h) Retirement and Other Benefits

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22 and include, among others, discount rates and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 22.2.

(i) Estimating Development Costs

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

(j) Impairment of Non-Financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to discount such. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on the Group's non-financial assets in 2012, 2011 and 2010.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

4.1 Market Risk

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

(a) Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's sales to a certain customer and fuel importation, which are primarily denominated in U.S. dollars. The liability covering the importation is covered by letter of credits which is subsequently closed to Philippine peso trusts receipts (TRs). Further, the Group has a U.S. dollar loan from a certain bank which has been used to finance its capital expenditures (see Note 16). The Group also holds U.S. dollar-denominated cash and cash equivalents.

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

Foreign currency-denominated financial assets and liabilities, translated into Philippine pesos at the closing rate follow:

	2012	2011	2010
Financial assets	**P 224,957,030**	P 590,450,249	P 4,900,000
Financial liabilities	**(2,107,635,570)**	(636,956,000)	-
Exposure	**(P1,882,696,540)**	(P 46,505,751)	P 4,900,000

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

	Reasonably possible change in rate	Profit before tax	Effect in equity before tax
2012	**16.7%**	**P 314,410,322**	**P 220,087,225**
2011	18.0%	8,371,035	5,859,725
2010	16.0%	784,000	548,800

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

(b) Interest Rate Sensitivity

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long term borrowings are therefore usually made at fixed rates. As at December 31, 2012, 2010 and 2010, the Group is exposed to changes in market interest rates through its cash and cash equivalents and bank borrowings, which are subject to variable interest rates (see Notes 6 and 16). All other financial assets and liabilities have fixed rates.

The table below illustrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates of +/-1.82% in 2012, +/- 1.90% in 2011 and 1.90% in 2010 for Philippine peso and +/-88% in 2012, +/- 0.90% in 2011 and 0.90% in 2010 for U.S. dollar. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	2012		2011		2010	
	+182/88	**-182/88**	+190/90	-190/90	+190/ 90	-190/ 90
Profit before tax	**(P28,254,605)**	**P28,254,605**	(P 57,476,490)	P 57,476,490	(P 55,383,622)	P 55,383,622

(c) Market Price Risk

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

4.2 Credit Risk

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

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

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

	Notes	**2012**	2011 (As restated - Note 30)	2010 (As restated - Note 30)
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
Due from related parties	25	**8,300,000**	26,311,686	20,009,114
Restricted deposits	10, 14	**82,694,029**	70,322,343	74,630,806
Refundable rent deposits and minimum lease payments	14	**101,580,768**	74,501,456	50,381,188
Hold out deposits	14	**-**	10,000,000	10,000,000
Installment contract receivable		**-**	9,002,788	18,005,640
		P4,188,088,613	P3,979,632,219	P3,345,272,284

None of the financial assets are secured by collateral or other credit enhancements.

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

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) Trade and Other Receivables

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

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

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

	2012	2011 (As restated - Note 30)	2010 (As restated - Note 30)
Not more than one month	**P 49,229,451**	P 202,814,458	P 100,038,064
More than one month but not more than two months	**59,529,182**	18,649,445	56,037,682
More than two months but not more than six months	**26,448,069**	34,422	22,591,526
More than six months but not more than one year	**54,931,311**	108,583,702	82,450,225
More than one year	**37,288,853**	126,114,702	7,551,252
	P 277,426,866	P 456,196,729	P 268,668,749

4.3 Liquidity Risk Analysis

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

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

As of December 31, 2012, the Group's liabilities have contractual maturities which are summarized as follows:

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 5 years
Interest-bearing loans and borrowings	P3,251,292,811	P1,444,634,077	P6,195,532,917
Trade and other payables	636,433,027	910,672,157	-
Due to related parties	45,299,380	40,252,365	-
Security deposits and unearned rent	-	-	319,422,536
	P3,933,025,218	**P2,395,558,599**	**P6,514,955,453**

This compares to the maturity of the Group's financial liabilities as of December 31, 2011and 2010 as presented below:

December 31, 2011 (As Restated – see Note 30)

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 5 years
Interest-bearing loans and borrowings	P 391,047,584	P3,731,153,787	P1,962,716,221
Trade and other payables	2,730,734,036	352,853,681	-
Due to related parties	37,077,904	-	24,102,695
Security deposits and unearned rent	-	-	198,595,085
	P3,158,859,524	P4,084,007,468	P2,185,414,001

December 31, 2010 (As Restated – see Note 30)

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 5 years
Interest-bearing loans and borrowings	P2,889,771,365	P 173,311,115	P1,351,910,704
Trade and other payables	1,878,944,798	47,017,662	-
Due to related parties	53,898,687	-	91,167,021
Security deposits and unearned rent	-	-	56,267,506
	P4,822,614,850	P 220,328,777	P1,499,345,231

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

5. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	Notes	**2012**		2011 (As restated – see Note 30)		2010 (As restated – see Note 30)	
		Carrying Values	**Fair Values**	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets							
Loans and receivables:							
Cash and cash equivalents	6	**P 438,510,937**	**P 438,510,937**	P 924,008,515	P 924,008,515	P 615,860,623	P 615,860,623
Trade and other receivables - net	7	**3,557,002,879**	**3,557,002,879**	2,865,485,431	2,865,485,431	2,556,384,913	2,556,384,913
Due from related parties	25	**8,300,000**	**8,300,000**	26,311,686	26,311,686	20,009,114	20,009,114
Restricted deposits	10, 14	**82,694,029**	**82,694,029**	70,322,343	70,322,343	74,630,806	74,630,806
Hold out deposits	14	**-**	**-**	10,000,000	10,000,000	10,000,000	10,000,000
Installment contract receivable		**-**	**-**	9,002,788	9,002,788	18,005,640	18,005,640
Refundable rent deposits and deferred minimum lease payments	14	**101,580,768**	**101,580,768**	74,501,456	74,501,456	50,381,188	50,381,188
		P 4,188,088,613	**P 4,188,088,613**	P 3,979,632,219	P 3,979,632,219	P 3,345,272,284	P 3,345,272,284
Financial Liabilities							
Financial liabilities at amortized cost:							
Interest-bearing loans and borrowings	16	**P 9,915,321,797**	**P 9,915,321,797**	P 5,877,318,163	P 5,877,318,163	P 4,034,224,124	P 4,034,224,124
Trade and other payables	17	**1,539,783,272**	**1,539,783,272**	3,083,587,717	3,083,587,717	1,925,962,460	1,925,962,460
Due to related parties	25	**85,551,745**	**85,551,745**	61,180,599	61,180,599	145,065,708	145,065,708
Security deposits and unearned rent	18	**319,422,536**	**319,422,536**	198,595,085	198,595,085	56,267,506	56,267,506
		P 11,860,079,350	**P11,860,079,350**	P 9,220,681,564	P 9,220,681,564	P 6,161,519,798	P 6,161,519,798

6. CASH AND CASH EQUIVALENTS

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

	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Cash on hand	**P 5,104,365**	P 5,997,265	P 3,305,139
Cash in banks	**293,191,196**	527,020,436	531,473,622
Revolving fund	**20,000**	8,514,836	2,121,862
Short-term placements	**140,195,376**	382,475,978	78,960,000
	P 438,510,937	P 924,008,515	P 615,860,623

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates ranging from 0.03% to 3.00% per annum in all years presented. Short-term placements have maturity ranging from 7 to 90 days and earn effective interest ranging from 2.1% to 4.8% per annum in 2012, 2011 and 2010. Interest income earned amounted to P9.4 million, P7.8 million and P6.2 million in 2012, 2011 and 2010, respectively (see Note 21.2).

The balances of the cash on hand and in banks as of December 31, 2012, 2011 and 2010 exclude restricted cash amounting to P82.7 million, P70.3 million and P74.6 million, respectively, which are shown as Restricted Deposits account in the consolidated statements of financial position (see Notes 10 and 14). Such amounts are not available for the general use of the Group under the loan agreements (see Note 16.3).

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Trade receivables				
Third parties		**P2,561,932,974**	P 2,442,582,536	P 2,158,755,842
Related parties	25.1	**88,444,125**	43,831,665	10,583,916
		2,650,377,099	2,486,414,201	2,169,339,758
Advances to suppliers		**881,428,714**	370,276,158	450,860,777
Non-trade receivables		**189,816,532**	157,404,602	52,682,026
Advances subject to liquidation		**10,648,302**	5,865,682	4,365,653
Other receivables				
Third parties		**44,306,093**	23,283,201	25,695,763
Related parties		**6,780,971**	10,745,362	14,632,388
		51,087,064	34,028,563	40,328,151
Allowance for impairment		**(226,354,832)**	(188,503,775)	(161,251,452)
		P3,557,002,879	P 2,865,485,431	P 2,556,384,913

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade and other receivables, which are due from customers, were found to be impaired, hence, adequate amount of allowance for impairment has been recorded in 2012, 2011 and 2010. Impairment losses amounted to P37.9 million, P27.3 million and P56.5 million in 2012, 2011 and 2010 (see Note 21.1), respectively, and are presented as part of Finance Costs under the Other Income (Charges) account in the consolidated statements of comprehensive income.

A reconciliation of the allowance for impairment at the beginning and end of 2012, 2011 and 2010 is shown below:

	Note	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Balance at beginning		**P 188,503,775**	P 161,251,452	P 104,721,009
Impairment loss during the year	21.1	**37,851,057**	27,252,323	56,530,443
Balance at end of year		**P 226,354,832**	P 188,503,775	P 161,251,452

Trade and other receivables do not bear any interest. All receivables are subject to credit risk exposure (see Note 4.2).

Other Receivables as of December 31, 2012 include P23.8 million partial claims from an insurance company related to an incident encountered by one of the Group's vessels. The amount represents the costs of towing and repairs incurred for the vessel, net of the applicable deductible clause. In addition, this account includes P12.3 million, P12.3 million and P12.6 million, as of December 31, 2012, 2011 and 2010, respectively, worth of reimbursable costs incurred by the Group in relation to its TC agreement with certain third party.

Certain trade receivables amounting to P11.4 million and P17.0 million as of December 31, 2012 and 2011, respectively, were used as collateral to the Group's interest-bearing loans and borrowings (see Notes 16.3a and 16.3b). There was no similar arrangement in 2010.

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

8. INVENTORIES

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

	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Fuel	**P 3,500,956,712**	P 1,924,942,072	P 900,181,181
Lubricants	**187,791,452**	207,656,621	151,477,747
Others	**11,512**	23,712	-
	P 3,688,759,676	P 2,132,622,405	P 1,051,658,928

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying amount of P2,838.9 million, P7,676.3 million and P5,173.7 million as of December 31, 2012, 2011 and 2010, respectively, have been released to the Group in trust for the bank. The Group is accountable to the bank for the trusteed inventories or their sales proceeds (see Note 16.1).

There were no inventory write-down in all of the years presented.

An analysis of the cost of inventories included in the cost of fuels and lubricants sold for the year is presented in Note 19.1.

9. LAND HELD FOR SALE AND LAND DEVELOPMENT COSTS

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

	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Land held for sale	**P 483,927,707**	P 433,484,266	P 433,484,266
Land development costs	**18,102,852**	18,102,852	18,102,852
	P 502,030,559	P 451,587,118	P 451,587,118

The land held for sale are used as security for the Group's installment payable with Land Bank of the Philippines (LBP) (see Note 16.2a).

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

10. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various banking credit facilities covered by hold-out agreements (see Notes 6 and 16.1) amounting to P82.7 million, P69.0 million and P73.4 million as of December 31, 2012, 2011 and 2010, respectively. As such, these are restricted as to withdrawals. The proceeds from availment of the banking credit facilities by the Group are used for the purpose of purchasing fuel and lubricant supplies (see Note 16.1). Interest rates for this type of deposit range from 2.40% to 5.975% per annum for all the years presented.

11. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Prepayments	**P 123,385,019**	P 142,541,580	P 48,012,189
Creditable withholding tax	**96,343,991**	47,294,524	16,915,383
Supplies	**67,601,838**	7,220,852	17,394,698
Others	**9,404,674**	9,152,989	3,717,656
	P 296,735,522	P 206,209,945	P 86,039,926

12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2012, 2011 and 2010 (as restated - see Note 30) are shown below:

	Buildings, Depot and Pier Facilities	Leasehold and Land Improvements	Gasoline Station Equipment	Office Furniture and Equipment	Hauling and Heavy Equipment	Transportation and Other Equipment	Tankers	Vessel Equipment	Land	Construction in Progress	Total
December 31, 2012											
Cost	P 3,084,915,381	P 55,656,133	P 407,092,708	P 75,658,193	P 341,521,375	P 63,195,010	P2,935,833,849	P 109,371,360	P 314,817,213	P 826,164,543	P 8,214,225,765
Accumulated depreciation and amortization	(488,342,896)	(34,646,602)	(90,255,972)	(59,674,415)	(165,135,976)	(58,709,091)	(306,045,202)	(12,629,793)	-	-	(1,215,439,947)
Net carrying amount	**P 2,596,572,485**	**P 21,009,531**	**P 316,836,736**	**P 15,983,778**	**P 176,385,398**	**P 4,485,921**	**P 2,629,788,646**	**P 96,741,567**	**P 314,817,213**	**P 826,164,543**	**P 6,998,785,818**
December 31, 2011											
Cost	P 2,481,607,641	P 55,242,472	P 343,448,606	P 64,838,151	P 188,602,020	P 59,218,964	P1,573,097,981	P 8,144,218	P 294,582,257	P 1,369,210,820	P 6,404,481,658
Accumulated depreciation and amortization	(320,978,425)	(26,720,521)	(84,390,166)	(51,227,279)	(115,771,597)	(50,707,700)	(214,235,251)	(1,691,418)	-	-	(832,210,885)
Net carrying amount	P 2,160,629,216	P 28,521,951	P 259,058,440	P 13,610,872	P 72,830,423	P 8,511,264	P1,358,862,730	P 6,452,800	P 294,582,257	P 1,369,210,820	P 5,572,270,773
December 31, 2010											
Cost	P 1,066,425,419	P 55,534,047	P 554,116,295	P 54,124,908	P 237,695,961	P 104,577,653	P 1,720,180,752	P 3,721,050	P 202,095,194	P 492,859,284	P 4,491,330,563
Accumulated depreciation and amortization	(188,091,626)	(16,770,362)	(64,434,605)	(35,213,662)	(73,827,034)	(43,262,636)	(183,358,683)	(258,938)	-	-	(605,217,546)
Net carrying amount	P 878,333,793	P 38,763,685	P 489,681,690	P 18,911,246	P 163,868,927	P 61,315,017	P1,536,822,069	P 3,462,112	P 202,095,194	P 492,859,284	P 3,886,113,017
January 1, 2010											
Cost	P 617,338,531	P 47,398,045	P 315,521,430	P 65,705,337	P 154,156,153	P 85,095,874	P 1,733,306,966	P -	P 164,684,194	P 625,020,994	P 3,808,227,524
Accumulated depreciation and amortization	(128,767,036)	(10,794,503)	(57,757,466)	(25,876,364)	(49,083,920)	(34,012,977)	(139,851,894)	(-)	-	-	(446,144,160)
Net carrying amount	P 488,571,495	P 36,603,542	P 257,763,964	P 39,828,973	P 105,072,233	P 51,082,897	P 1,593,455,072	P -	P 164,684,194	P 625,020,994	P 3,362,083,364

A reconciliation of the carrying amounts at the beginning and end of 2012, 2011 and 2010 (as restated - see Note 30) of property and equipment is shown below and in the succeeding page.

	Buildings, Depot and Pier Facilities	Leasehold and Land Improvements	Gasoline Station Equipment	Office Furniture and Equipment	Hauling and Heavy Equipment	Transportation and Other Equipment	Tankers	Vessel Equipment	Land	Construction in Progress	Total
Balance at January 1, 2012, net of accumulated depreciation and amortization	P 2,160,629,216	P 28,521,951	P 259,058,440	P 13,610,872	P 72,830,423	P 8,511,264	P 1,358,862,730	P 6,452,800	P 294,582,257	P 1,369,210,820	P 5,572,270,773
Additions	277,171,382	916,669	64,971,675	11,202,741	56,929,002	4,395,476	136,041,924	93,530,147	30,490,875	803,220,556	1,478,870,447
Revaluation increment	-	-	-	-	-	-	331,807,097	-	-	-	331,807,097
Transfers	359,647,830	(503,008)	(1,137,573)	(299,581)	96,174,777	56,465	894,886,847	7,696,995	(10,255,919)	(1,346,266,833)	-
Cost of asset disposed	-	-	(190,000)	(83,118)	(184,424)	(475,895)	-	-	-	-	(933,437)
Accumulated depreciation of asset disposed		-	-	(97,633)	(1,703,533)	-	-	-	-	-	(1,801,166)
Depreciation and amortization charges for the year	(200,875,943)	(7,926,081)	(5,865,806)	(8,349,503)	(47,660,847)	(8,001,391)	(91,809,951)	(10,938,375)	-	-	(381,427,896)
Balance at December 31, 2012, net of accumulated depreciation and amortization	**P 2,596,572,485**	**P 21,009,531**	**P 316,836,736**	**P 15,983,779**	**P 176,385,398**	**P 4,485,919**	**P 2,629,788,647**	**P 96,741,567**	**P 314,817,213**	**P 826,164,543**	**P 6,998,785,818**
Balance at January 1, 2011, net of accumulated depreciation and amortization	P 878,333,793	P 38,763,685	P 489,681,690	P 18,911,246	P 163,868,927	P 61,315,017	P1,536,822,069	P 3,462,112	P 202,095,194	P 492,859,284	P 3,886,113,017
Additions	78,428,525	5,980,923	80,424627	10,748,332	46,084,497	2,313,589	20,221,155	4,423,168	92,487,063	1,723,009,229	2,064,121,108
Revaluation decrement	-	-	-	-	-	-	(55,931,472)	-	-	-	(55,931,472)
Transfers	1,303,242,225	(6,272,498)	(291,092,316)	-	(95,178,438)	(47,672,278)	(16,369,002)	-	-	(846,657,693)	-
Cost of asset disposed	-	-	-	(35,089)	-	-	(95,003,452)	-	-	-	(95,038,541)
Accumulated depreciation of asset disposed	-	-	-	7,310	-	-	54,911,279	-	-	-	54,918,589
Depreciation and amortization charges for the year	(99,375,327)	(9,950,159)	(19,955,561)	(16,020,927)	(41,944,563)	(7,445,064)	(85,787,847)	(1,432,480)	-	-	(281,911,928)
Balance at December 31, 2011, net of accumulated depreciation and amortization	P 2,160,629,216	P 28,521,951	P 259,058,440	P 13,610,872	P 72,830,423	P 8,511,264	P1,358,862,730	P 6,452,800	P 294,582,257	P 1,369,210,820	P 5,572,270,773

	Buildings, Depot and Pier Facilities	Leasehold and Land Improvements	Gasoline Station Equipment	Office Furniture and Equipment	Hauling and Heavy Equipment	Transportation and Other Equipment	Tankers	Vessel Equipment	Land	Construction in Progress	Total
Balance at January 1, 2010, net of accumulated depreciation and amortization	P 488,571,495	P 36,603,542	P 257,763,964	P 39,828,973	P 105,072,233	P 51,082,897	P 1,593,455,072	P -	P 164,684,194	P 625,020,994	P 3,362,083,364
Additions	52,015,163	9,502,314	170,528,561	7,422,794	38,770,472	16,369,323	6,451,070	3,721,050	37,411,000	404,485,357	746,677,104
Revaluation decrement	-	-	-	-	-	-	(6,751,545)	-	-	-	(6,751,545)
Transfers	397,071,725	539,542	68,066,304	(19,003,223)	44,769,336	5,572,908	39,630,475	-	-	(536,647,067)	-
Cost of asset disposed	-	(1,905,854)	-	-	-	(2,460,452)	(52,456,214)	-	-	-	(56,822,520)
Accumulated depreciation of asset disposed	-	(13,145)	-	-	-	2,218,477	17,856,941	-	-	-	20,062,273
Depreciation and amortization charges for the year	(59,324,590)	(5,962,714)	(6,677,139)	(9,337,298)	(24,743,114)	(11,468,136)	(61,363,730)	(258,938)	-	-	(179,135,659)
Balance at December 31, 2010, net of accumulated depreciation and amortization	P 878,333,793	P 38,763,685	P 489,681,690	P 18,911,246	P 163,868,927	P 61,315,017	P 1,536,822,069	P 3,462,112	P 202,095,194	P 492,859,284	P 3,886,113,017

12.1 Acquisition of Vessels

(a) MT Chelsea Thelma (MT Thelma)

On April 26, 2011, the Group entered into a Memorandum of Agreement (MOA) with a foreign corporation for the importation of one unit of oil tank vessel (MT Thelma) from China for US$19.8 million (see Note 16.2d). Formal turn-over of the vessel occurred in early 2012.

Since the vessel is not yet ready for the Group's use as of December 31, 2011, the contract price of the vessel, other incidental costs of the transaction and costs incurred for the major improvements made to the vessel totaling P874.9 million were recognized as part of CIP in the 2011 consolidated statement of financial position. The whole amount was then reclassified to vessel in 2012 upon completion of the vessel.

The unpaid balance of the contact price amounting to $6.34 million (P278.5 million) is included as part of Trade payables under the Trade and Other Payables account in the 2011 consolidated statement of financial position (see Note 17). The amount was fully paid by the Group in 2012.

(b) MT Chelsea Cherylyn (MT Cherylyn)

On September 12, 2007, the Group entered into a MOA with a foreign corporation for the construction of one unit oil tank vessel (MT Cherylyn) in China for US$15.0 million. The vessel was completed and launched in July 2009. Total cost incurred during construction of MT Cherylyn amounted to P877.5 million inclusive of capitalized borrowing costs totaling P32.0 million representing interest charges directly attributable to the construction of the vessel (see Note 16.3a).

12.2 Double Hull Conversion of Vessels

On December 14, 2010, Philippine Maritime Industry Authority (MARINA) issued Circular 2010-01, mandating all owners and operators of oil tankers and tanker-barges with 600 deadweight tonnage and above must be double hulled within twelve months from the effectivity of the Circular. However, oil tankers carrying petroleum black products shall continue to be covered under Circular 2007-01 regardless of size.

As of December 31, 2012, MT Chelsea Resolute, MT Chelsea Denise and MT Ernesto Uno have completed their double hulling. Total costs that were capitalized as part of tanker amounted to P32.3 million, P30.3 million and P27.3 million, respectively. After the completion of the double hulling of these tankers in 2012, all of the Group's tankers are double-hulled.

12.3 Revaluation of Tankers

The Group's tankers were revalued by an independent appraiser in each year from 2009. The revaluation increment relating to the Group's property and equipment is presented as part of Revaluation Reserves in the equity section of the consolidated statements of changes in equity. It is the management's policy to revalue the tankers at least every two years, having assessed that this schedule allows it to revalue with sufficient regularity such that the carrying amount of the tankers will not materially differ from that which would be determined using fair value at the end of the reporting period.

If the tankers were carried at cost model, the cost, accumulated depreciation and net carrying amount would be as follows:

	2012	2011	2010
Cost	**P 2,479,523,748**	P 1,433,104,896	P 1,508,860,590
Accumulated depreciation	**(269,952,387)**	(195,386,481)	(162,833,471)
Net carrying amount	**P 2,209,571,361**	P 1,247,718,415	P 1,346,027,119

12.4 Disposal of Tanker

In 2011, three of the Group's vessels were sold for P2.2 million. Also, in 2011, the Group disposed one vessel for P121.9 million. The related gain from these sales transactions, taking into consideration the carrying value, as restated, and the related dry docking costs; amounted to P41.9 million in 2011 which is presented under the Other Income (Charges) account in the 2011 consolidated statement of comprehensive income.

In 2010, one of the Group's vessels was damaged due to a typhoon. As a result, the Group's wrote off the net carrying value of the asset and subsequently sold it as scrap. The proceeds from the sale amounted to P1.6 million, P1.1 million of which was offset against the Group's liability to the buyer.

12.5 Borrowing Costs

Construction in progress pertains to accumulated costs incurred on the various depot facilities and retail stations being constructed as part of the Group's expansion program, including capitalized borrowing costs of P77.8 million, P91.2 million and P35.2 million in 2012, 2011 and 2010, respectively, representing the actual borrowing costs incurred on borrowings obtained to fund the retail stations and depot facilities. The capitalized rate used was 8.5% in 2012 and 2011, and 10% in 2010.

12.6 Collaterals

Port expansion facilities with carrying value of P211.6 million, P231.7 million and P90.4 million as of December 31, 2012, 2011 and 2010, respectively, are used to secure the Group's instalment payable with LBP (see Note 16.2a).

Two of the tankers of the Group with net revalued amount of P331.5 million as of December 31, 2012 are used to secure a loan with Philippine Bank of Communication (see Note 16.2c).

Certain property and equipment with an aggregate carrying value of P42.5 million, P26.0 million and P37.7 million as of December 31, 2012, 2011 and 2010, respectively, are mortgaged with local banks (see Note 16.4).

Moreover, certain service vehicle of the Group with carrying value of P110.8 million, P38.0 million and P81.3 million as of December 31, 2012, 2011 and 2010, respectively, was used as collateral for mortgage payable (see Note 16.5).

12.7 Finance Lease

The carrying amount of hauling and heavy equipment held under finance lease amount to P25.5 million as of December 31, 2012 and nil as of December 31, 2011 and 2010 (see Note 16.6).

12.8 Depreciation

The amount of depreciation and amortization is allocated as follows:

	Note		**2012**		2011		2010
Cost of services		**P**	**122,984,227**	P	78,484,830	P	60,462,084
Selling and administrative expenses			**258,443,669**		203,427,098		118,673,575
	20	**P**	**381,427,896**	P	281,911,928	P	179,135,659

As of December 31, 2012, 2011 and 2010, fully depreciated property and equipment still use in operations amounted to P81.2 million, P50.1 million and P21.1 million, respectively.

13. LAND HELD FOR FUTURE DEVELOPMENT

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

The Group's land held for future development was used as collateral for the Group's installment payable with LBP (see Note 16.2a).

14. OTHER NON-CURRENT ASSETS

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

	Note	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Refundable rent deposits		**P 69,234,807**	P 52,593,137	P 43,703,138
Dry docking costs		**64,433,228**	31,556,905	26,395,784
Deferred minimum lease payments		**32,345,961**	21,908,319	6,678,050
Restricted time deposits		**-**	1,285,506	1,208,090
Holdout deposits	16.3a	**-**	10,000,000	10,000,000
Others		**1,793,383**	504,050	1,887,425
		P 167,807,348	P 117,847,917	P 89,872,487

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

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

Presented below is a reconciliation of the carrying amount of dry docking costs.

	Notes	2012	2011	2010
Balance at beginning of year		**P 31,556,905**	P 26,395,784	P 48,627,669
Additions		**57,263,996**	37,575,980	11,823,067
Amortization during the year	19.2, 20	**(24,387,673)**	(17,197,819)	(34,054,952)
Disposal		**-**	(15,217,040)	-
		P 64,433,228	P 31,556,905	P 26,395,784

Amortization pertaining to dry docking costs is presented as part of Depreciation and Amortization account under Cost of Sales and Services account in the consolidated statements of comprehensive income (see Note 19.2).

Dry docking costs are being amortized over 24 months or until the occurrence of the next dry docking, whichever comes earlier.

15. GOODWILL

Goodwill amounting to P84.5 million, P85.8 million and P83.6 million as of December 31, 2012, 2011 and 2010, respectively, represents the excess of acquisition cost over the Group's share in the fair value of identifiable net assets of the acquired subsidiaries at the date of the acquisition and arises from the expected business synergy and economies of scale of the entities combined. In 2012, the Parent Company assessed that the goodwill pertaining with PPMI is impaired, hence, impairment loss amounting to P1.3 million was recognized and is presented as part of Finance Costs under Other Income (Charges) account in the 2012 consolidated statement of comprehensive income (see Note 21). The increase in the balance of the Goodwill during 2011 pertains to the acquisition of SPTT. The movements of the account are as follows:

	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Beginning balance	**P 85,783,624**	P 83,638,948	P 83,638,948
Impairment loss	**(1,266,961)**	-	-
Additions	**-**	2,144,676	-
Ending balance	**P 84,516,663**	P 85,783,624	P 83,638,948

16. INTEREST-BEARING LOANS AND BORROWINGS

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

	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Current:			
Liabilities under letters of credits and trust receipts	**P 2,838,941,626**	P 3,449,608,928	P 2,235,435,892
Installment and notes payable	**927,181,333**	306,994,915	454,735,133
Term loans	**297,156,898**	194,983,159	124,526,316
Bank loans	**41,696,363**	63,871,610	127,089,685
Mortgage payable	**6,692,616**	15,742,344	16,099,226
Obligations under finance leases	**7,678,316**	-	-
	P 4,119,347,152	P 4,031,200,956	P 2,957,886,252
Non-current:			
Installment and notes payable	**P 5,161,264,658**	P 1,287,469,333	P 450,617,655
Term loans	**587,482,550**	529,530,311	311,315,789
Bank loans	**37,384,848**	15,600,000	41,671,611
Mortgage payable	**9,842,589**	13,517,563	272,732,817
Obligations under finance leases	**20,314,918**	-	-
	P5,795,974,645	P 1,846,117,207	P 1,076,337,872

16.1 Liabilities Under Letters of Credits and Trust Receipts

The Group avails of letter of credit (LC) and TR lines with local banks to finance its purchases of inventories (see Note 8). These short-term trust receipts bear interests based on prevailing market interest rates at an average of 8.25% per annum both in 2012, 2011 and 2010.

The Group is required by the banks to maintain certain collaterals for the credit line facility provided to the Group for working capital requirements. The collaterals are in the form of compensating deposits and a surety of a stockholder (see Notes 10 and 25.6).

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

16.2 Installment and Notes Payable

16.2a Installment Loan with LBP

On April 16, 2010, the Group availed the P580.0 million loan with LBP. The loan with LBP was used to refinance the installment payable with PHINMA Group via take-out of the outstanding installment payable to PHINMA Group. The refinanced installment payable is payable for seven years with one year grace period on principal and bears an interest rate based on the prevailing LBP rate at the time of availment subject to quarterly repricing with reference to a three month PDST-F rate plus minimum spread of 2.5%. The installment payable with LBP is secured by the Group's parcel of land with carrying value of P320.2 million, P705.5 million and P749.3 million as of December 31, 2012, 2011 and 2010, respectively (see Notes 9 and 13), and port expansion facilities with carrying value of P211.6 million, P231.7 million and P90.4 million as of December 31, 2012, 2011 and 2010 respectively (see Note 12).

16.2b Notes Facility Agreement

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

16.2c Omnibus Loan and Security Agreement (OLSA) with Philippine Bank of Communication (PBComm)

On February 10, 2012, the Group entered into a loan agreement with PBComm amounting to P107.0 million to partly finance the double hulling and dry docking of a vessel owned by the Group. In February and May 2012, PBComm released the loan amounting to P65.0 million and P42.0 million, respectively. The loan is subject to annual interest rate of 9.5% and is payable in thirty-six equal monthly installments with one quarter grace period from date of each release.

The loan is secured by a chattel mortgage on two of the vessels of the Group with net book value amounting to P292.4 million as of December 31, 2012.

The loan agreement requires the Group to maintain a debt-to-equity ratio of not more than 4:1. As of December 31, 2012, the Group has complied with its debt covenants with the bank.

16.2d OLSA with BDO Unibank, Inc. (BDO)

On April 26, 2011, the Group entered into a MOA with China Shipbuilding & Exports Corporation for the importation of one unit of oil tank (MT Thelma) in the amount of US$19.8 million [see Note 12.1(a)].

In connection with the MOA, the Group entered into an OLSA amounting to US$14.5 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. The loan is payable into twenty-seven consecutive equal quarterly principal installments starting in August 2012. The loan is subject to interest computed at one-year LIBOR plus applicable margin of 3.5% per annum.

In connection with the OLSA, certain advances made by certain stockholders are subordinated to the loan. Based on said agreement, the obligation of the Group to pay the stockholders' advances shall be fully subordinated, junior and subject in right of payment to the prior indefeasible payment and performance in full of the OLSA. The Group affirms that any and all obligations of the Group relative to the OLSA shall be settled first before any of its financial obligations to such shareholders' advances are paid. Accordingly, portion of the advances from shareholders are treated as non-current liabilities (see Note 25.4). In 2012, however, upon the increase in the Group's capitalization, subordination agreement was lifted by the bank in 2012.

The loan is secured by a chattel mortgage on one of the Group's vessels with book value, as restated, of P125.1 million as of December 31, 2011 (see Note 12) and a refund guaranty issued by the Bank of China for US$8.16 million until MT Thelma is delivered. The loan will be further secured by a chattel mortgage of MT Thelma upon its delivery and registration with the MARINA. The carrying amount of MT Thelma, presented as part of CIP, amounted to P874.9 million as of December 31, 2011. As of December 31, 2012, the loan is secured by chattel mortgages on these two vessels with total book value of P1,098.3 million.

Related debt issuance costs amounted to P8.2 million of which P2.3 million and P0.5 million was amortized during 2012 and 2011, respectively, using effective interest rate of 5.02%. Amortized debt issuance costs were recognized as part of the Finance Costs under the Other Income (Charges) account in the consolidated statements of comprehensive income (see Note 21). The unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

16.2e Convertible Notes Facility Agreement with BDO

On July 11, 2012, the Parent Company executed a Convertible Notes Facility Agreement with BDO worth P500.0 million with warrants offering amounting to P180.0 million. The loan is subject to annual interest rate of 7.6% and is payable quarterly in arrears over its three years term. The issuance of the convertible note is part of the Group's plan to raise long-term capital, to refinance short-term debt and finance capital expenditures.

BDO is granted the option to convert all or any portion of the unpaid principal amount of the notes held by it into the conversion shares exercisable at any time upon written notice by BDO to the Parent Company specifying the time and date of the conversion. Also, BDO has the option to elect one nominee to the Parent Company's Board of Directors which option may be exercised any time after signing date and on or before conversion date.

For and in consideration of the subscription of BDO to the convertible notes issued by the Parent Company, the latter also granted the former the right to subscribe to warrants to be issued by the Parent Company convertible into common shares of the Parent Company up to the aggregate principal amount of P180.0 million. The availment of the convertible note and the issuance of the warrant were approved by the Parent Company's stockholders during a special stockholders' meeting held on September 6, 2012. The Parent Company's stockholders also authorized the execution, delivery and performance of Subscription Agreement between the Parent Company and BDO in relation to the issuance of the warrants.

The exercise price of the option to convert the note to the Parent Company's common shares and the warrant is equivalent to a determined price base plus a premium of fifteen percent. The exercise based used was the 30-day volume-weighted average price of the Parent Company's share on the PNX PM Equity HP page of Bloomberg from May 24, 2012 to July 5, 2012 which is equal to P8.3 per share. The exercise period consists of a two-year period commencing on the third anniversary date of the convertible notes issue date and expiring five years thereafter.

Considering that a fixed number of shares will be issued for options and warrants, the warrants and options may qualify as an equity instrument to be recorded as a separate component in the equity in the Group's consolidated financial statements. The Group's management , however, assesses that at the date of the initial recognition, the equity component has no value since the interest rate to be charged by BDO on the convertible note with warrants is similar to the interest rate of the note had it been issued without conversion options and warrants. As such, the fair value of the hybrid convertible note and the host debt instrument is the same resulting in the nil value of the equity component at the date of initial recognition.

Minimum financial ratios to maintain are as follows: (i) debt to equity ratio not to exceed 3:1; (ii) current ratio not to fall below 1:1 and (iii) debt service coverage ratio not to be less than 2.5:1.

As of December 31, 2012, the Group has complied with its debt covenants.

16.2f Notes Facility Agreement with China Banking Corporation and Pentacapital Investment Corporation

On November 8, 2012, the Parent Company entered into a notes facility agreement with China Banking Corporation and Pentacapital Investment Corporation totaling P2,500.0 million. The loan is subject to a fixed annual interest rate of 7.75% which is payable in twenty quarterly payments. The net proceeds of the loan were used by the Parent Company for the roll out of the retails stations, for debt financing, to support capital expenditures and for other general corporate purposes. As of December 31, 2012, the total amount of the loan has already been drawn down.

By virtue of the notes facility agreement, the Parent Company affirms that it shall maintain the listing of its common shares with PSE and shall not declare or pay any dividends to stockholders (other than dividends payable solely in shares of its capital stock) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the notes are current and updated.

Minimum financial ratios to maintain are as follows: (i) debt to equity ratio not to exceed 3:1; (ii) current ratio not to fall below 1:1 and (iii) debt service coverage ratio not to be less than 2.5:1.

As of December 31, 2012, the Group has complied with its debt covenants.

16.3 Term Loans

16.3a Term Loan Agreement (TLA) with Development Bank of the Philippines (DBP)

On September 12, 2007, the Group entered into a MOA with China Shipbuilding & Exports Corporation for the construction of one unit of oil tank (vessel) in the amount of US$15.0 million [see Note 12.1(b)].

In connection with the MOA, the Group entered into a TLA amounting to US$13.0 million with DBP, the proceeds of which shall be exclusively used to finance the construction of the vessel. In February 2008 and May 2009, DBP granted the loan amounting to US$3.9 million (P159.0 million) and US$9.1 million (P432.5 million), respectively. The loan is payable over five years in equal quarterly principal installments, with one quarter grace period on principal, commencing November 2009 and was subject to 10.5% interest rate per annum.

In 2010, DBP approved the reduction of interest rate from 10.5% to 9% subject to annual review effective September 14, 2010. The agreement also stipulated for interest-bearing hold-out deposits amounting to at least P10.0 million which is shown as Hold-out Deposits under the Other Non-current Assets account in the consolidated statements of financial position (see Note 14). The Hold-out Deposits were agreed to be released by the DBP in 2012. Hold-out deposit earns interest at the rate of 2.5% per annum. In the 2012, DBP further reduced the interest rate to 7.5% effective March 23, 2012.

The loan is secured by a chattel mortgage on certain vessel of the Group with net book value, as restated, amounting to P808.1 million, P713.6 million and P947.3 million as of December 31, 2012, 2011 and 2010, respectively, and of certain vessels with total net book value, as restated, totaling P921.0 million as of December 31, 2010 (see Note 12). The loan is also secured by certain collateral on receivables of CSC and guaranteed by certain stockholders of the Group (see Note 25.6).

16.3b Loan Agreement with Robinsons Bank Corporation (RBC)

On November 23, 2011, the Group entered into a loan agreement with RBC amounting to P65.0 million to partly finance the double hulling and dry docking of certain vessel of the Group (see Notes 12). The loan is subject to annual interest rate of 8.0% and is payable in twenty-four equal monthly installments.

The loan is secured by a chattel mortgage on one of the vessels of the Group with net book value amounting to P130.7 million and P101.3 million as of December 31, 2012 and 2011, respectively, and receivables of CSC from certain customer (see Note 7). The loan is also guaranteed by certain stockholders of CSC.

16.3c TLA with Maybank Philippines, Inc.

On July 18, 2012, the Parent Company signed with Maybank Philippines, Inc. a five year clean term loan amounting to P300.0 million to be used exclusively for capital expenditure and permanent working capital. The loan is subject to annual interest rate of 6.0% and is payable in twenty equal quarterly installments.

In connection with the TLA, all existing and future advances to the Parent Company by its stockholders or related parties are subordinated to the loan. The Parent Company agrees that any and all of its obligations relative to the TLA shall be settled first before any of its financial obligations to such shareholders' and related parties' advances are paid.

The TLA also requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1, current ration of at least 1:1 and debt coverage ratio of at least 2.5.

As of December 31, 2012, the Group has complied with its debt covenants with the bank.

16.3d TLA with Maybank International Ltd.

On November 20, 2012, the Group entered into a TLA amounting to US$24.0 million with Maybank International Ltd. to fund various capital expenditures. The total amount of the loan is broken down into US$14.0 million (tranche 1) which is due in five years and US$10.0 million (tranche 2) with a term of three years.

The loan is subject to interest computed at one-year LIBOR plus applicable margin of 4.25% per annum, or cost of funds plus a margin of 2.0% per annum, whichever is higher. Interest payments are to be serviced quarterly in arrears. Maybank International Ltd. reserves the right to vary, at its absolute discretion from time to time, such rate of interest, which variation may take place by varying the LIBOR or the margin or spread above the LIBOR, or both.

The TLA also requires the Group to maintain debt-to-equity ratio of not more than 3:1, current ration of at least 1:1 and debt coverage ratio of at least 2.5.

Moreover, Maybank International Ltd. has the right of first refusal and right to match any fund raising exercise that may be required to refinance the U.S. dollar-denominated term facility either via follow-on offering of the Group's shares or a syndicated term loan.

The balance of the principal of the loan amounted to P987.2 million, translated into Philippine Peso using the closing rate as of December 31, 2012.

As of December 31, 2012, the Group has complied with its debt covenants with the bank.

16.4

16.5 Bank Loans

The bank loans represent secured loans from local commercial banks for working capital purposes. The loans bear annual interest rates ranging from 7.5% to 14.0% in 2012, 2011 and 2010 subject to monthly repricing. These loans are secured by certain vessels owned by the Group with net book value, as restated, amounting to P182.7 million, P259.3 million and P501.5 million as of December 31, 2012, 2011 and 2010 respectively (see Note 12), and by certain stockholders (see Note 16.7).

16.6 Mortgage Payable

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

16.7 Obligations under Finance Lease

The finance lease liability has an effective interest rate of 5.07% which is equal to the rate implicit in the lease contract (see Note 29.5). Lease payments are made on a monthly basis.

16.8 Credit Line

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

(a) Assignment of future receivables;
(b) Suretyship of the PPHI and pledge of its share in the Parent Company amounting to P46,958,000 (at P1 par value);
(c) Joint several signature of certain stockholders; and,
(d) Negative pledge over the remaining shares of PPHI in Parent Company in favor of the bank amounting to P4,080.0 million.

17. TRADE AND OTHER PAYABLES

This account consists of:

	Note	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Trade payables	12.1	**P 565,867,953**	P 2,448,692,607	P 1,425,197,487
Accrued expenses		**512,791,859**	186,255,407	147,556,307
Advances from customers		**310,478,006**	271,051,966	179,931,492
Income tax payable		**7,321,912**	-	141,019
Others		**150,645,454**	177,587,737	173,277,174
		P 1,547,105,184	P 3,083,587,717	P 1,926,103,479

The 2011 balance of Trade Payables includes the P278.5 million unpaid balance of the agreed price for the purchase of MT Thelma from a foreign corporation. It was fully paid as of December 31, 2012.

Accrued expenses mostly pertain to payables to various contractors for the construction of retail stations that remains unpaid at the end of the year. In addition, this comprises amounts to be paid in relation to charter hire cost, repairs and maintenance, interest expense arising from loans and professional fees.

The advances from customers include option money from two different locators amounting to P0.1 million in 2012 and 2011, and P47.0 million in 2010. The said locators have the right and option to purchase subject properties under the terms and condition agreed by the said locator and the Group. However, in the event that the said locator does not exercise its right to purchase the subject properties, the option money shall be refunded to the said locator plus interest at the rate equivalent to the prevailing treasury bill rate plus 2% per annum.

In addition, the advances from customers pertain to the advance payment of the various customers for their fuel purchases. Advances from customers are measured at the amount of cash received from the customers and are offset against trade receivables once the related sales transactions are consummated.

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

18. OTHER NON-CURRENT LIABILITIES

This account consists of:

	Note	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Security deposits		**P 270,272,999**	P 147,463,104	P 53,072,027
Retirement benefit obligation	22.2	**24,337,362**	17,266,395	12,029,362
Unearned rent		**49,149,537**	51,131,981	3,195,479
Others		**995,395**	827,576	826,897
		P 344,755,293	P 216,689,056	P 69,124,242

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

19. COST OF SALES AND SERVICES

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

	Notes	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Cost of fuels and lubricants sold	19.1	**P 31,444,710,716**	P 24,646,048,111	P 12,828,616,845
Cost of services	19.2	**517,038,697**	426,399,961	334,518,902
Cost of real estate sold	20	**-**	255,169,157	82,133,000
		P 31,961,749,413	P 25,327,617,229	P 13,245,268,747

19.1. Cost of Fuels and Lubricants Sold

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

	Note	2012	2011 (As Restated - see Note 30)	2010 (As Restated - see Note 30)
Inventories at beginning of year	8	**P 2,132,622,405**	P 1,051,658,928	P 457,924,415
Net purchases during the year		**33,000,847,987**	25,727,011,588	13,422,351,358
Goods available for sale		**35,133,470,392**	26,778,670,516	13,880,275,773
Inventories at end of year	8	**(3,688,759,676)**	(2,132,622,405)	(1,051,658,928)
		P 31,444,710,716	P 24,646,048,111	P 12,828,616,845

19.2. Cost of Services

Details of cost of services are shown below:

	Notes	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Depreciation and amortization	12, 14	**P 147,371,900**	P 95,682,649	P 94,517,036
Bunkering		**106,973,168**	97,707,682	25,081,727
Charter hire fees		**71,143,057**	52,127,126	31,765,499
Port expenses		**58,257,723**	58,067,686	58,021,279
Professional fees		**42,067,106**	19,219,086	16,099,094
Salaries and employees benefits		**29,065,941**	39,170,418	40,822,766
Insurance		**25,329,791**	23,277,799	29,948,770
Repairs and maintenance		**19,611,488**	18,785,445	14,535,959
Taxes and licenses		**7,745,126**	8,508,543	4,337,740
Fuel, gas and lubricants		**4,974,245**	9,630,985	15,313,547
Security services		**1,210,469**	1,022,920	1,000,410
Travel and transportation		**208,697**	276,842	497,908
Outside services		**-**	760,118	633,569
Others		**3,079,986**	2,162,662	1,943,598
		P 517,038,697	P 426,399,961	P 334,518,902

20. OPERATING EXPENSE BY NATURE

The details of operating expenses by nature are shown below:

	Notes	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Cost of sales:				
Fuels		**P 31,046,564,548**	P 24,388,755,788	P 12,577,295,001
Lubricants		**398,146,168**	257,292,323	251,321,844
Depreciation and amortization	12, 14	**405,815,569**	299,109,747	213,190,611
Rent	25.3, 29.3	**240,876,571**	170,267,139	137,831,427
Salaries and employee benefits	22.1	**210,986,618**	210,953,650	214,794,737
Taxes and licenses		**132,946,735**	102,745,421	42,092,893
Trucking charges		**130,451,226**	45,371,313	38,608,301
Professional fees		**85,399,457**	52,580,571	29,945,715
Advertising and promotions		**84,473,675**	92,164,872	44,805,419
Service fee		**81,392,862**	14,221,848	12,866,913
Bunkering		**62,899,266**	97,707,682	54,450,538
Repairs and maintenance		**61,023,908**	50,722,433	39,844,188
Port expenses		**59,299,038**	58,067,687	58,021,279
Freight charges		**50,386,551**	109,270,579	93,363,013
Insurance		**49,923,821**	48,880,236	55,730,020
Fuel, oil and lubricants		**49,339,252**	54,281,743	36,898,326
Rebates		**40,802,132**	36,277,742	4,544,380
Travel and transportation		**35,184,779**	32,378,270	20,894,225
Utilities		**33,806,011**	27,489,547	22,699,203
Charter hire fees		**33,546,169**	50,427,126	31,765,499
Security fees		**26,108,756**	14,807,846	8,155,774
Office supplies		**12,775,030**	12,341,093	8,414,772
Representation		**12,761,925**	12,596,174	9,955,974
Outside services		**9,585,134**	1,369,795	1,258,526
Handling and processing fees		**9,285,094**	8,634,724	11,501,178
Cost of real estate sold	19	**-**	255,169,157	82,133,000
Miscellaneous		**97,484,337**	77,283,466	29,091,042
		P 33,461,264,632	P 26,581,167,972	P 14,131,473,798

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

	Note	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Cost of sales and services	19	**P 31,961,749,413**	P 25,327,617,229	P 13,245,268,747
Selling and administrative expenses		**1,499,515,219**	1,253,550,743	886,205,051
		P 33,461,264,632	P 26,581,167,972	P 14,131,473,798

21. FINANCE INCOME (COSTS)

The breakdown of these accounts follows:

21.1 Finance Costs

	Notes	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Interest expense from bank loans and other borrowings	16	**P 467,358,205**	P 294,510,418	P 310,829,813
Impairment losses on trade and other receivables	7	**37,851,057**	27,252,323	56,530,443
Bank charges		**9,033,059**	13,882,667	31,179,658
Others	15	**3,979,093**	-	-
		P 518,221,415	P 346,537,077	P 398,539,914

21.2 Finance Income

	Note	2012	2011	2010
Foreign currency exchange gains – net		**P 14,061,359**	P 781,821	P 17,992,755
Interest income from cash in banks	6	**9,406,440**	7,834,039	6,211,527
Day one gain – net		**1,161,552**	13,312,527	277,914
		P 24,629,351	P 21,928,387	P 24,482,196

22. SALARIES AND EMPLOYEE BENEFITS

22.1 Salaries and Employee Benefits Expense

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

	Notes	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Employee welfare and other benefits		**P 101,719,266**	P 105,726,194	P 105,565,770
Salaries and wages		**91,118,445**	96,927,785	97,771,552
13th month pay and bonuses		**10,975,301**	3,062,638	8,062,578
Post-employment benefits	22.2	**7,173,606**	5,237,033	3,394,837
	20	**P 210,986,618**	P 210,953,650	P 214,794,737

22.2 Post-employment Benefits

The Group maintains a wholly funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

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

	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Present value of obligation	**P 36,440,105**	P 16,815,536	P 12,124,411
Unrecognized actuarial losses	**(12,102,743)**	1,350,584	2,079,601
Unamortized transitional liability	**-**	(899,725)	(2,174,650)
	P 24,337,362	P 17,266,395	P 12,029,362

		2012		2011 (As restated - see Note 30)		2010 (As restated - see Note 30)
Balance at beginning of year	**P**	**16,815,536**	P	12,124,411	P	13,446,366
Actuarial loss		**13,643,977**		431,917		-
Current service cost		**4,921,333**		4,740,900		1,819,050
Interest cost		**1,499,078**		1,625,308		1,202,961
Changes in assumptions	**(**	**371,380)**	(	299,500)		729,500
Benefits paid	**(**	**102,639)**		-	(	256,800)
Experience adjustments		**34,200**		34,200	(	4,024,066)
Effect of curtailment		**-**	(	1,841,700)	(	792,600)
Balance at end of year	**P**	**36,440,105**	P	16,815,536	P	12,124,411

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

	Note		2012		2011 (As restated - see Note 30)		2010 (As restated - see Note 30)
Current service cost		**P**	**4,921,333**	P	4,740,900	P	1,819,050
Interest cost			**1,499,078**		1,625,308		1,202,961
Amortization of transitional liability			**899,725**		1,274,925		372,826
Actuarial loss (gain) recognized during the year		**(**	**146,530)**		91,200		-
Curtailment gain			**-**	(	2,495,300)		-
	22.1	**P**	**7,173,606**	P	5,237,033	P	3,394,837

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

Presented below are the historical information related to the present value of the retirement benefit obligation and the experienced adjustments arising on plan liabilities (in thousand Philippine Pesos).

		2012		2011		2010		2009		2008
Present value of the obligation	**P**	**36,440**	P	16,816	P	12,124	P	13,446	P	7,625
Experience adjustments on plan Liabilities		**34**		34		4,024		-		-

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

	2012	2011	2010
Discount rate	**4.70% to 6.20%**	5.48% to 10.44%	8.68% to 10.44%
Expected rate of salary increase	**5% to 7%**	5% to 10%	5% to 10%

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

The Group's post-employment benefit is unfunded as of December 31, 2012, 2011 and 2010. The Group has yet to determine how much and when to fund the post-employment benefit plan.

23. REGISTRATION WITH THE BOARD OF INVESTMENTS

23.1 BOI Registration as New Industry Participant – Davao Depot

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

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

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

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

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

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

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

(e) Importation of consigned equipment for a period of five years from the date of registration, subject to posting of a re-export bond; and,
(f) Other non-fiscal incentives, which may be applicable.

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

23.2 BOI Registration as New Industry Participant – Batangas Depot

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

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

23.3 BOI Registration as New Industry Participant – Zamboanga Depot

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

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

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

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

23.5 BOI Registration for New Investment – Bacolod Storage Terminal

On May 10, 2012, the Parent Company was registered with the BOI as new industry participant with new investment in storage, marketing and distribution and bulk marketing of petroleum products under RA 8479 for its storage terminal in Bacolod City. Under its registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Parent Company's transaction relating Bacolod storage terminal is also entitled to certain tax and non-tax incentives as also mentioned in the previous page. The ITH will expire five years from May 10, 2012.

23.6 BOI Registration for New Investment – Cagayan De Oro City Storage Terminal

On May 10, 2012, the Parent Company was registered with the BOI as new industry participant with new investment in storage, marketing and distribution and bulk marketing of petroleum products under RA 8479 for its storage terminal in Bacolod City. Under its registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Parent Company's transaction relating Bacolod storage terminal is also entitled to certain tax and non-tax incentives as also mentioned in the previous page. The ITH will expire five years from May 10, 2012.

23.7 BOI Registration for MT Thelma and MT Cherylyn

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT Thelma and MT Cherylyn, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, CSC is entitled to tax and non-tax incentives which include a six-year ITH. For MT Cherylyn, the related tax incentives started in April 2009. Meanwhile, the tax incentive for MT Thelma started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered project.

24. TAXES

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

	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 14,677,522**	P 34,644,588	P 15,960,197
Final tax at 20% and 7.5%	**564,032**	1,588,077	225,787
Minimum corporate income tax (MCIT) at 2%	**462,671**	3,357,172	2,721,479
	15,704,225	39,589,837	18,907,463
Deferred tax income (expense):			
Deferred tax relating to reversal of temporary difference	**7,967,931**	(1,699,383)	(33,139,724)
Deferred tax income relating to net operating loss carry-over (NOLCO)	**(1,391,490)**	(1,097,619)	(6,704,683)
Provision of impairment loss	**(1,097,417)**	(1,132,848)	(4,901,214)
MCIT	**(88,177)**	(7,433,662)	(234,271)
Reversal of NOLCO	**-**	13,938,497	1,650,871
Recognition of previously unrecognized 2010 temporary differences	**-**	244,272	-
	5,390,847	2,819,257	(43,329,021)
	P 21,095,072	P 42,409,094	(P 24,421,558)
Reported in other comprehensive income			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P 99,542,130**	(P 16,779,443)	(P 2,025,464)

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

	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Tax on pretax profit at 30%	**P 214,984,071**	P 179,686,617	P 136,447,260
Adjustment for income subjected to higher (lower) income tax rates	**(2,917,824)**	(641,770)	(117,028)
Tax effects of:			
Adjustment for income and expenses under income tax holiday	**(197,507,308)**	(137,005,122)	(156,884,471)
Non-deductible expenses	**11,600,817**	3,274,649	405,221
Non-taxable income	**(7,468,857)**	(2,899,926)	-
Unrecognized deferred tax asset	**2,076,833**	(244,272)	244,272
Unrecognized deferred tax liabilities	**(27,374)**	-	-
Reversal of NOLCO	**354,713**	238,918	(517,280)
Utilization of MCIT	**-**	-	(234,271)
Tax effect of other adjustment	**-**	-	(3,765,261)
Tax expense (income) reported in profit or loss	**P 21,095,072**	P 42,409,094	(P 24,421,558)

The Parent Company's availment of income tax holiday pertaining to its original facilities in Davao depot expired in November 2010. Tax income for the years 2012 and 2011 pertains to the income of subsidiaries and portion of the Parent Company's income subjected to income tax (see Note 22). The tax income for the year 2010 pertains to the subsidiaries.

The deferred tax assets amounting to P0.8 million, P0.6 million and nil as of December 31, 2012, 2011 and 2010, respectively, pertains to Net Operating Carry-over (NOLCO) of CSMMSC and PNX-Chelsea. The related deferred tax income amounted to P0.2 million and P0.6 million as of December 31, 2012 and 2011, respectively.

Deferred tax assets amounting to P23.0 million, P15.0 million and 19 million as of December 31, 2012, 2011, 2010, respectively, pertains to NOLCO, impairment and MCIT of PPPI, PPIPC and PPMI. The related deferred tax income amounted to P8.0 million, P4.0 million, and P10.0 million as of December 31, 2012, 2011 and 2010, respectively.

The net deferred tax liabilities as of December 31, 2012, 2011 and 2010 pertains to the following:

	Consolidated Statements of Financial Position			Consolidated Statements of Comprehensive Income	
	2012	2011 (As Restated - see Note 17.4)	2010 (As Restated - see Note 17.4)	**2012**	2011 (As Restated - see Note 17.4)
Deferred tax assets:					
Impairment loss	**P 3,360,463**	P 3,102,035	P 1,894,571	**(P 258,426)**	(P 1,207,465)
Retirement benefit obligation	**2,734,604**	2,060,800	1,952,525	**(673,808)**	(108,274)
Accrued loss on contamination	**2,057,831**	2,057,831	2,057,831	**-**	-
MCIT	**549,478**	5,924,651	2,721,479	**5,375,175**	(3,203,172)
NOLCO	**765,659**	4,755,559	10,309,876	**3,989,900**	5,554,317
Accrued rent	**65,992**	65,991	-	**-**	(65,992)
Unrealized foreign currency losses - net	**-**	324,927	-	**-**	(338,289)
	9,534,027	18,291,794	18,936,282	**8,432,839**	631,125
Deferred tax liabilities:					
Revaluation reserves of tankers	**(126,065,190)**	(31,696,271)	(51,881,403)	**(5,173,211)**	(3,405,691)
Unrealized foreign currency gains - net	**(10,726,537)**	-	(13,360)	**11,051,467**	-
Capitalized borrowing cost	**(8,542,522)**	(8,862,866)	(9,183,211)	**(320,344)**	(320,345)
Unamortized debt issuance costs	**(1,566,434)**	(2,263,940)	-	**(697,505)**	2,263,940
	(146,900,683)	(42,823,077)	(61,077,974)	**4,860,407**	(1,462,096)
Net deferred expense				**P 13,293,246**	(P 830,971)
Net deferred tax liabilities per table	(**137,366,656**)	(24,531,283)	(42,141,692)		
Less: Net deferred tax assets					
PPMI	**9,777,944**	7,709,573	5,906,513		
PPPI	**7,279,593**	7,279,661	13,253,486		
PPIPC	**5,491,440**	-	-		
PNX- Chelsea	**647,754**	624,140	-		
CSMMSC	**164,975**	-	-		
PGMI	**-**	-	103,603		
Deferred tax liabilities – net as presented in the consolidated statements of financial position	**(114,004,950)**	(8,917,909)	(22,878,090)		

The deferred tax expense (income) recognized amounting to P99,542,130 and (P16,779,443) and (P2,025,464) in the consolidated statements of comprehensive income as of December 31, 2012, 2011 and 2010, respectively, pertains to the tax effect on the changes in fair value of tankers under the revaluation model.

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

Taxable Years	Original Amount	Tax Effect	Valid Until
2012	P 71,764,117	P 11,255,373	2015
2011	16,818,089	4,837,774	2014
2010	3,521,938	1,056,582	2013
	P 92,104,144	**P 17,149,729**	

The Parent Company, PPMI and PPIPC are subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. For the year 2011, the Parent Company, PPMI and PPIPC's MCIT was higher than RCIT. The Group's MCIT in 2011 could be applied against income tax liability up to 2014.

In 2012, 2011 and 2010, the Group opted to claim itemized deductions.

25. RELATED PARTY TRANSACTIONS

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

25.1. Sales of Goods

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

	Amount of Transactions			Outstanding Balances		
	2012	2011	2010	**2012**	2011	2010
Sales of goods:						
Other related parties	P **125,553,735**	P 128,664,820	P 83,012,517	P **88,444,125**	**P** 43,831,665	P 10,583,916

The outstanding receivables from sales of goods to other related parties are presented as part of Trade Receivables under Trade and Other Receivables account in the statements of financial position (see Note 7). The outstanding balances are unsecured, non-interest bearing and payable on demand. There are no impairment losses on the outstanding balances for all the years presented.

25.2. Purchases of Services

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

	Amount of Transactions			Outstanding Balances		
	2012	2011	2010	**2012**	2011	2010
Purchases of services:						
Other related parties	**P 654,413,710**	P 391,133,996	P 359,297,083	**P 4,963,791**	P 5,560,320	P 4,874,025

The amounts of transactions are presented as part of the Cost of Sales and Services account in the consolidated statements of comprehensive income and the related outstanding payables for services obtained in 2012, 2011 and 2010 are presented as part of Trade Payables under Trade and Other Payables account (see Note 17). The outstanding balances are unsecured, non-interest bearing and payable on demand.

25.3. Rentals

The Group has the following lease agreements with the following related parties:

(a) Udenna Corporation – five year lease term of which total rent expense incurred in the years 2012, 2011 and 2010 amounted to P6.6 million, P6.3 million and P7.3 million, respectively. There is no outstanding payable as of all the years presented.

(b) Udenna Development (UDEVCO) Corporation – five year lease term of which total rent expense in 2012 amounted to P26.4 million and nil in both 2011 and 2010. Rental deposit for the lease amounted to P7.4 million and is presented as Refundable Rent Deposits under Other Non-current Assets in the 2012 consolidated statement of financial position (see Note 14).

(c) Value Leases, Inc. – three year lease term of which total rent expense in 2012, 2011 and 2010 amounted to P20.0 million, P0.4 million and nil, respectively. Refundable Rent Deposits amounted to P0.1 million both in 2012 and 2011, and is presented as part of Other Non-current Assets in the consolidated financial statements (see Note 14).

The rent expenses aforementioned are presented as part of selling and administrative expenses in the consolidated statement of comprehensive income (see Notes 20 and 29.3).

25.4. Due from and Due to Related Parties

The Group grants and obtains unsecured advances to and from PPHI and other unconsolidated related companies for working capital purposes.

As of December 31, 2012, 2011 and 2010, the outstanding receivable and payable balances from these advances are shown as Due From Related Parties and Due to Related Parties, respectively, in the consolidated statements of financial position. Due From Related Parties and Due to Related Parties - current are either receivable in cash or paid through offsetting, unsecured noninterest-bearing liabilities and are expected to be paid within one year; hence, their carrying values are considered to be a reasonable approximation of their fair values. Non-current Due to Related Parties, on the other hand, are unsecured non-interest bearing liabilities. These are stated at their carrying value since the date of repayment is not currently determinable.

The details of the outstanding due from related parties as of December 31 are as presented in the next page.

	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
PPHI	**P -**	P 9,685,087	P 14,750,495
Related parties under common control			
Udenna Environmental Services, Inc.	**8,300,000**	257,300	1,433,923
UMRC	**-**	16,045,809	-
Udenna Energy Corporation		121,271	-
VLI	**-**	22,219	-
One Subic Power Generation Corp.	**-**	-	29,999
	8,300,000	26,311,686	16,214,417
Individual stockholder	**-**	-	3,794,697
	P 8,300,000	P 26,311,686	P 20,009,114

No impairment loss is recognized in 2012, 2011 and 2010 related to advances to related parties.

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

	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Balance at beginning of year	**P 26,311,686**	P 20,009,114	P 73,739,558
Additions	**9,467,416**	45,743,477	1,765,635
Collections	**(27,479,102)**	(39,440,905)	(55,496,079)
Balance at end of year	**P 8,300,000**	P 26,311,686	P 20,009,114

The breakdown of the Due to Related Parties as of December 31 is as follows:

	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Current:			
PPHI	**P -**	P **-**	P 53,106,188
Related parties under common control			
UMRC	**83,551,745**	19,932,827	-
Global Synergy Trade and Distibution Corp.	**2,000,000**	-	-
VLI	**-**	-	792,499
	85,551,745	19,932,827	53,898,867
Individual stockholder	**-**	17,145,077	-
Total Current	**P 85,551,745**	P 37,077,904	P 53,898,687

	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Non-Current:			
Related party under common control			
UMRC	**P -**	P -	P 78,430,491
Individual stockholder	**-**	24,102,695	12,736,530
Total Non-Current	**P -**	P 24,102,695	P 91,167,021

The movement of due to related parties in 2012, 2011 and 2010 follows:

	2012	2011 (As restated - see Note 30)	2010 (As restated - see Note 30)
Balance at beginning of year	**P 61,180,599**	P 145,065,708	P 3,463,173
Additions	**177,435,185**	57,164,052	6,490,023
Payments	**(153,064,039)**	(141,049,161)	(45,110,088)
Reclassifications	**-**	-	180,222,600
Balance at end of year	**P 85,551,745**	P 61,180,599	P 145,065,708

25.5. Loan Collateral

(a) Surety and a negative pledge over the remaining shares of a stockholder secured the liabilities under letters of credits and trust receipts (see Note 16.1).

(b) The TLA with DBP, OLSA with BDO and PBComm, loan agreement with RBC and certain banks loans of the Group were guaranteed by certain stockholders through a surety agreement with the respective banks. The vessels owned by the Group were also used as security on particular loans.

25.6. Key Management Compensations

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

	2012	2011	2010
Salaries and wages	**P 36,822,265**	P 31,121,478	P 25,137,801
Honoraria and allowances	**4,416,398**	3,000,011	1,997,058
13th month pay and bonuses	**4,129,412**	3,625,681	3,303,149
Post-employment benefits	**242,700**	207,850	281,665
	P 45,610,775	P 37,955,020	P 30,719,673

25.7. Others

The Group has made donations amounting to P1.5 million, P0.5 million and P0.6 million in 2012, 2011 and 2010, respectively, to Udenna Foundation, Inc., a non-stock, non-profit organization established by the ultimate parent company. This is presented as part of Other Expense under the Other Operating Expenses in the consolidated statements of comprehensive income. In addition, the Group has made donations amounting to P3.8 million, P4.6 million and P1.7 million in 2012, 2011 and 2010, respectively, to PhoenixPhilippines Foundation, Inc., a non-stock non-profit organization established by the Parent Company.

26. EQUITY

26.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2012	2011	2010	**2012**	2011	2010
Preferred – cumulative, nonvoting, non-participating, non-convertible into common shares - P1 par value						
Authorized:	**50,000,000**	50,000,000	50,000,000	**P 50,000,000**	P 50,000,000	P 50,000,000
Issued and outstanding	**5,000,000**	5,000,000	5,000,000	**P 5,000,000**	P 5,000,000	P 5,000,000
Common shares – P1 par value						
Authorized:						
Balance at beginning of year	**750,000,000**	750,000,000	400,000,000	**P 750,000,000**	P 750,000,000	P400,000,000
Increase in authorized stock	**1,750,000,000**	-	350,000,000	**1,750,000,000**	-	350,000,000
Balance at end of year	**2,500,000,000**	750,000,000	750,000,000	**P 2,500,000,000**	P 750,000,000	P750,000,000
Issued:						
Balance at beginning of year	**661,123,014**	548,075,739	440,411,671	**P 661,123,014**	P 548,075,739	P440,411,671
Stock dividends	**244,936,202**	113,043,634	107,664,065	**244,936,202**	113,043,634	107,664,065
Reclassification	**200**	3,641	-	**200**	3,641	-
Balance at end of year	**906,059,416**	661,123,014	548,075,739	**P 906,059,416**	P 661,123,014	P548,075,739
				P 911,059,416	P 666,123,014	P553,075,739

On April 23, 2012, the SEC approved the Parent Company's increase in authorized capital stock from P800.0 million divided into 750.0 million common shares with a par value of P1 and 50.0 million preferred shares with par value of P1 per share into P2,550.0 million divided into 2,500.0 common shares with par value of P1 per share and 50.0 million preferred shares with par value of P1 per share.

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

The preferred shares shall have the following features:

(a) Non-convertible into common shares;

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

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

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

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

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

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

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

Moreover, the subscription agreement requires that the Parent Company undertakes to maintain a long-term debt to equity ratio of 1:1 throughout the life of the preferred shares.

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

Based on its plans, the Board of Directors of the Parent Company will also declare and distribute in 2013 cash dividends out of the Parent Company's retained earnings as of December 31, 2012.

26.2 Listing with PSE

On July 11, 2007, the Parent Company offered a portion of its stocks for listing with the PSE. Number of common shares registered was 145.0 million with an issue price of P9.80. As of December 31, 2012, the number of holders of such securities is 50. The market price of the Parent Company's shares as of December 31, 2012 is P9.03. The total number of issued shares not listed with the PSE amounted to P116.0 million shares.

The history of public offerings and private placements of the shares of the Parent Company are as follows:

Transaction	Subscriber	Issue Date	Number of Shares
Initial public offering	Various	July 11, 2007	29,000,000
30% stock dividends	Various	August 6, 2008	43,000,198
40% stock dividends	Various	August 3, 2009	73,660,476
Placement	Social Security System	November 13, 2009	7,500,000
40% stock dividends	Various	October 20, 2010	107,664,266
30% stock dividends	Various	May 6, 2011	113,047,475
50% stock dividends	Various	April 26, 2012	244,936,203
Shares issuance for CSC acquisition	UMRC	September 6, 2012	171,250,798
			790,059,416

26.3 Additional Paid-in Capital

In 2012, the Parent Company issued 171,250.8 million shares in favor of UMRC in relation to the share-for-share swap acquisition of CSC. The excess of par value of such issuance amounted to P1,248.9 million was recorded as part of Additional Paid-in Capital account (see Note 30).

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

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

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

26.4 Deposits on Future Stock Subscriptions

In 2009, the Parent Company received subscriptions amounting to P44.6 million. Pending the Parent Company and investor agreement as to the number of shares to be issued, the amount received was presented as Deposits on Future Stock Subscriptions in the consolidated statements of financial position. In 2010, the investor withdrew the investment.

26.5 Other Reserves

In 2012, the Parent Company issued 171,250.8 million common shares plus cash of P157.8 million in exchange of the net assets of CSC. The acquisition of CSC is accounted for under business combination using pooling-of-interest method wherein the difference between the consideration given up over the carrying value of the net assets of CSC is recognized as Other Reserves (see Note 30).

26.6 Treasury Shares – At Cost

Treasury shares of P17.3 million were re-issued during 2010. There are no treasury shares as at end of December 31, 2012, 2011 and 2010.

26.7 Retained Earnings

On March 8, 2012, the stockholders ratified the BOD's approval of 50% stock dividends (or a total of 244.9 million shares), valued at par and distributed on April 26, 2012 to stockholders of record as of March 28, 2012. In addition, cash dividends of 10 centavos per common shares totaling to P49.0 million were also declared and paid in 2012.

On March 11, 2011, the stockholders ratified the BOD's approval of 30% stock dividends (or a total of 113.0 million shares), valued at par and distributed on May 6, 2011 to stockholders of record as of April 8, 2011. In addition, cash dividends of 10 centavos per common share totaling to P37.7 million were also declared and paid in 2011.

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

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

26.8 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

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

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

	2012	2011	2010
Total liabilities	**P 12,006,738,969**	P 9,247,693,444	P 6,197,395,643
Total equity	**4,500,451,311**	3,710,962,950	3,078,611,647
Debt-to-equity ratio	**2.67**	2.49	2.01

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

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

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

27. EARNINGS PER SHARE (EPS)

EPS were computed as follows:

	2012	2011	2010
a) Net profit pertaining to common shares	**P 568,234,093**	P 499,046,297	P 398,446,855
b) Net profit attributable to common shares and potential common shares	**568,234,093**	499,046,297	398,446,855
c) Weighted average number of outstanding common shares	**906,003,256**	906,002,195	904,576,191
d) Weighted average number of outstanding common and potential common shares	**906,003,256**	906,002,195	904,576,191
Basic EPS (a/c)	**P 0.63**	P 0.55	P 0.44
Diluted EPS (b/d)	**P 0.63**	P 0.55	P 0.44

The options and warrants attached on the convertible notes do not have dilutive effect since the average market price of the common shares of the Parent Company during the year does not exceed the exercise price of the options or warrants (see Note 16.2e).

The 2011 and 2010 basic and diluted EPS were restated to account for the issuance of the shares in relation with the acquisition of CSC and the stock dividends declared which is considered as a bonus issue under PAS 33, Earnings per Share. PAS 33 requires to treat stock dividends issued as if it occurred at the beginning of 2010, the earliest period presented for EPS computation.

28. SEGMENT REPORTING

28.1 Business Segments

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

(a) Trading segment is engaged in marketing, merchandising, purchasing, selling, dealing, acquiring, disposing and distribution of goods and wares such as but not limited to petroleum products (on wholesale basis), adhesives, glues, bonding agents, epoxy resins, lubricants and other products.

(b) Management, investment and technical services (MITS) segment is involved in providing management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises.

(c) Shipping and cargo services segment is engaged in hauling of petroleum products, operation of inter-island going vessels for domestic trade, chartering in and out any such vessels and providing complete marine services, either as principal or agent to ship owners, operators and managers.

(d) Real estate segment is involved in real estate development, management and operations.

(e) Depot and logistics services segment is engaged in operating of oil depots, storage facilities and provides logistics services to various entities.

28.2 Segment Assets and Liabilities

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

28.3 Intersegment Transactions

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

The tables presented in the next pages present revenue and profit information regarding business segments of the Group for the years ended December 31, 2012, 2011 and 2010 and certain asset and liability information regarding industry segments at December 31, 2012, 2011 and 2010 (in thousands).

	Trading			MITS			Shipping and Cargo Services		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
TOTAL REVENUES									
Sales to external customers	**P 18,114,762**	P 9,417,563	P 5,637,410	**P 856,324**	P 653,789	P 1,116,304	**P10,623,411**	P 8,965,231	P 2,763,910
Intersegment sales	**8,247,365**	5,763,241	2,473,601	**-**	-	-	**1,023,475**	800,742	2,104,703
Total revenues	**26,362,127**	15,180,804	8,111,011	**856,324**	653,789	1,116,304	**11,646,886**	9,765,973	4,868,613
COSTS AND OTHER OPERATING EXPENSES									
Cost of sales and services excluding depreciation and amortization	**9,896,169**	8,446,482	3,493,119	467,817	337,511	2,564,821	7,323,044	5,159,676	2,622,020
Depreciation and amortization	**228,398**	120,842	69,021	7,419	5,204	9,499	100,906	77,740	41,430
	10,124,567	8,567,324	3,562,140	475,236	342,715	2,574,320	7,423,950	5,237,416	2,663,450
SEGMENT OPERATING PROFIT	**16,237,560**	6,613,480	4,548,871	381,088	311,074	(1,458,016)	4,222,936	4,528,558	2,205,163
ASSETS AND LIABILITIES									
Segment assets	**P 1,898,562**	P 34,675	P 874,250	**P 200,165**	P 88,150	P 1,274,230	**P 457,632**	P 56,100	P 147,561
Segment liabilities	**631,748**	2,563,741	437,425	**873,654**	986,321	75,320	**114,230**	56,730	114,720

	Real Estate			Depot and Logistics			Total		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
TOTAL REVENUES									
Sales to external customers	**P -**	P 6,641,180	P 3,789,410	**P 4,991,055**	P 1,773,215	P 1,622,526	**P 34,585,552**	P 27,450,978	P 14,929,560
Intersegment sales	-			**2,983,599**	3,560,728	5,545,123	**12,254,439**	10,124,711	10,123,427
Total revenues	-	6,641,180	3,789,410	**7,974,654**	5,333,943	7,167,649	**46,839,991**	37,575,689	25,052,987
COSTS AND OTHER OPERATING EXPENSES									
Cost of sales and services excluding depreciation and amortization	-	3,368,206	953,184	27,608,374	19,074,505	14,443,123	45,295,404	36,386,380	24,076,267
Depreciation and amortization	-	52,865	32,246	69,092	42,459	60,995	405,815	299,110	213,191
	-	3,421,071	985,430	27,677,466	19,116,964	14,504,118	45,701,219	36,685,490	24,289,458
SEGMENT OPERATING PROFIT	-	3,220,109	2,803,980	(19,702,812)	(13,783,021)	(7,336,469)	1,138,772	890,199	763,529
ASSETS AND LIABILITIES									
Segment assets	**P 647,561**	P 65,421	P 45,710	**P 13,260,050**	P 19,730,162	P 7,010,312	**P 16,463,970**	P 19,974,508	P 9,352,063
Segment liabilities	**674,130**	115,472	41,583	**9,634,432**	5,608,359	5,527,468	**11,928,194**	9,330,623	6,196,516

28.5 Reconciliations

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its financial statements (in thousands).

	2012	2011	2010
Revenues			
Total segment revenues	**P 46,839,991**	P 37,575,689	P 25,052,987
Elimination of intersegment revenues	**(12,254,439)**	(10,124,711)	(10,123,427)
Revenues as reported in profit or loss	**P 34,585,552**	P 27,450,978	P 14,929,560
Profit or loss			
Segment operating profit	**P 1,138,772**	P 890,199	P 763,529
Other unallocated income	**5,863**	41,885	4,250
Other unallocated expense	**(4,214)**	(8,520)	(5,321)
Operating profit as reported in profit or loss	**1,140,421**	923,564	762,458
Finance costs	**(518,221)**	(346,537)	(398,540)
Finance income	**24,629**	21,928	24,482
Profit before tax as reported in profit or loss	**P 646,829**	P 598,955	P 388,400
Assets			
Segment assets	**P 16,463,970**	P 19,974,508	P 9,352,063
Other unallocated assets	**88,925**	52,130	32,660
Elimination of intercompany accounts	**(45,705)**	(67,982)	(108,716)
Total assets reported in statements of consolidated financial position	**P 16,507,190**	P 19,958,656	P 9,276,007
Liabilities			
Segment liabilities	**P 11,928,194**	P 9,330,623	P 6,196,516
Deferred tax liabilities - net	**114,005**	8,918	22,878
Elimination of intercompany accounts	**(40,800)**	(96,708)	(25,228)
Other unallocated liabilities	**5,340**	4,860	3,230
Total liabilities as reported in consolidated statements of financial position	**P 12,006,739**	P 9,247,693	P 6,197,396

29. COMMITMENTS AND CONTINGENCIES

29.1 Capital Commitments

As of December 31, 2012, the Group has commitments of more than P1,000.0 million for expansion on petroleum retail network, depot, terminalling and logistics facilities, information technology infrastructure and other major expansions related to its business development. The Group has a network of 300 opened retail service stations as of December 31, 2012. An additional of 43 retail service stations are under various stages of completion as of December 31, 2012.

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

29.2 Letters of Credits

As of December 31, 2012, 2011 and 2010, the Parent Company has unused LCs amounting to P4,430.0 million, P1,200.0 million and P4,769.0 million, respectively.

29.3 Operating Lease Commitments – Group as Lessee

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

	2012	2011	2010
Within one year	**P 187,663,835**	P 91,320,612	P 107,693,075
After one year but not more than five years	**670,823,252**	235,492,472	312,372,494
More than five years	**808,176,037**	460,060,085	799,718,282
	P 1,666,663,124	P 786,873,169	P 366,840,805

Total rent expense for the years 2012, 2011 and 2010 amounted to P240.9 million, P170.3 million and P137.8 million, respectively (see Note 20).

29.4 Operating Lease Commitments – Group as Lessor

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

	2012	2011	2010
Within one year	**P 38,530,088**	P 27,688,937	P 8,188,030
After one year but not more than five years	**84,012,963**	116,896,787	19,188,870
More than five years	**4,003,448**	94,958,743	3,256,198
	P 126,546,499	P 239,544,467	P 30,633,098

Rent income in 2012, 2011 and 2010 amounting to P54.3 million, P22.3 million and P11.9 million, respectively, is presented as part of Rent and Storage Income account in the consolidated statements of comprehensive income.

29.5 Finance Lease –Group as a Lessee

The Group is a lessor under several finance lease covering certain hauling trucks with a lease term of 2 to 5 years. The leases provide options to purchase the transportation equipment at the end of the lease terms. Future minimum lease payments (MLP) under the finance leases together with the present value (PV) of the net minimum lease payments (NMLP) follow in 2012 is as follows:

	Future MLP	**PV of NMLP**
Within one year	**P10,393,611**	**P 7,678,316**
After one year but not more than five years	**23,511,665**	**20,304,918**
	33,905,275	**21,233,632**
Amounts representing finance charges	**(5,922,041)**	**-**
Present value of MLP	**P 27,983,234**	**P 27,983,234**

The liabilities relating to the finance leases are shown as part of Interest-bearing Loans and Borrowings (see Note 16). There are no obligations under finance leases as of December 31, 2011 and 2010.

29.6 TC Agreement

The Group has existing commitments to charterers under TC agreements for the use of its tankers in transporting oil products for a fixed period. Also associated with these TC agreements is the obligation to keep the Group's tankers in good working condition and compliant with all the shipping regulations as required by the MARINA.

29.7 Legal Claims

The Group filed a complaint for a sum of money against one of its customers for unpaid charter fees including damages. A Writ of Garnishment on the customer's funds for the amount of P15.9 million has been issued by the trial court in favor of the Group.

The same customer filed a suit against the Group for reimbursement and damages, amounting to P13.7 million, for the loss it incurred from the contamination of its cargo, which was on board one of the Group's vessels in 2010. In the same year, MI, a subsidiary of CSC, made a provision in the amount of P6.9 million for the amount of probable liability that it could answer for such claim. The related liability is presented as part of Others under the Trade and Other Payables account in the consolidated statements of financial position
(see Note 8). No additional loss was recognized related to this claim in 2011 and 2012.

In 2012, certain bank account of the Group was garnished. The remaining balance on such bank accounts as of December 31, 2012 was presented as part of Prepayments and other current assets in the 2012 consolidated statement of financial position (see Note 6).

29.8 Others

In 2011, the Bureau of Customs filed a case with the Group's President with the Department of Justice (DOJ) on the alleged smuggling of imported fuels. However, in its resolution dated November 16, 2012, the DOJ has dismissed all charges for smuggling and all other alleged violations of the Tariff and Customs Code of the Philippines.

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

30. ACQUISITION OF CSC

At the meeting of the Parent Company's BOD held on July 6, 2012, the BOD approved the acquisition of 100% shares of stock of CSC via share for share swap. The acquisition was subsequently approved by the Parent Company's stockholders on September 6, 2012. The agreed purchase price for the sale of the shares amounted to P1,578.0 million payable as follows: 90% were paid via the issuance of new common shares from the unissued authorized capital stock of the Parent Company via share-for-share swap and the balance of ten percent amounting to P157.8 million was paid in cash. Accordingly, 171,250,799 new common shares were issued in favor of UMRC in proportion to its shareholdings in CSC. The purchase price in acquiring CSC was based on a 30-day volume weight-average price from May 24 to July 5, 2012 or at P8.3 per share.

The Group accounts for the business combination under common control under pooling of interest-type method. The balance of retained earnings as of January 1, 2010 has been restated from the amounts previously reported to record the assets and liabilities CSC as a result of a business combination. Due to the said business combination, the 2011 and 2010 comparatives contained in these consolidated financial statements differ from those previously presented in the consolidated financial statements for the years ended December 31, 2011 and 2010.

The reconciliations and explanatory notes thereto describe the effects of the prior period adjustments as a result of the business combination on the Group's consolidated financial statements as of and for the years ended December 31, 2011 and 2010. All explanations should be read in conjunction with the related individual notes to the consolidated financial statements.

The changes to the consolidated statements of financial position as of December 31, 2011 and 2010 brought about by the business combinations are summarized below:

	Notes	As Previously Reported	Adjustment	As Restated
December 31, 2011				
Changes in assets:				
Cash and cash equivalents	6	P 886,342,207	P 37,666,308	P 924,008,515
Trade and other receivable – net	7	2,764,340,778	101,144,653	2,865,485,431
Inventories	8	2,132,622,404	-	2,132,622,405
Land held for sale and land development cost		451,587,118	-	451,587,118
Due from related parties	24	9,480,803	16,830,883	26,311,686
Restricted deposits	9	69,036,837	-	69,036,837
Input value-added tax – net		226,507,521	-	226,507,521
Prepayments and other current assets	10	167,647,224	38,562,721	206,209,945
Installment contract receivable		9,002,788	-	9,002,788
Land held for future development		271,981,834	-	271,981,834
Advances for future investment		150,000,000	(150,000,000)	-
Property and equipment-net	12	3,288,614,119	2,283,656,654	5,572,270,773
Goodwill		11,488,810	74,294,814	85,783,624
Deferred tax assets - net	23	14,989,234	(14,989,234)	-
Other non-current assets	13	73,668,013	44,179,904	117,847,917
		P10,527,309,690	P 2,431,346,704	P12,958,656,394
Changes in liabilities				
Interest-bearing loans and borrowings	14	5,073,182,841	804,135,322	5,877,318,163
Trade and other payables	15	2,404,549,895	679,037,822	3,083,587,717
Due to related parties	24	-	61,180,599	61,180,599
Deferred tax liabilities - net	24	-	8,917,909	8,917,909
Other non-current liabilities	16	209,819,730	6,869,325	216,689,056
		P 7,687,552,466	P 1,560,140,978	P 9,247,693,444
Total adjustment to equity			P 871,205,726	

	Notes	As Previously Reported	Adjustment	As Restated
December 31, 2010				
Changes in assets:				
Cash and cash equivalents	6	P 605,444,745	P 10,415,878	P 615,860,623
Trade and other receivable – net	7	2,592,845,395	(36,460,482)	2,556,384,913
Inventories	8	1,051,658,928	-	1,051,658,928
Land held for sale and land development costs		451,587,118	-	451,587,118
Due from related parties	24	14,750,495	5,258,619	20,009,114
Restricted deposits	9	73,422,716	-	73,422,716
Input value-added tax – net		27,539,110	-	27,539,110
Prepayments and other current assets	10	53,432,012	32,607,914	86,039,926
Installment contract receivable		18,005,640	-	18,005,640
Land held for future development		315,874,750	-	315,874,750
Advances for future investment		-	-	-
Property and equipment-net	12	2,358,043,160	1,528,069,857	3,886,113,017
Goodwill		9,344,134	74,294,814	83,638,948
Deferred tax assets - net	23	19,263,602	(19,263,602)	-
Other non-current assets	16	50,060,088	39,812,399	89,872,487
		P 7,641,271,893	P 1,634,735,397	P 9,276,007,290
Changes in liabilities				
Interest-bearing loans and borrowings		P 3,427,052,637	P 607,171,487	P 4,034,224,124
Trade and other payables		1,637,293,361	288,810,118	1,926,103,479
Due to related parties		53,106,188	91,959,820	145,065,708
Deferred tax liabilities - net		-	22,878,090	22,878,090
Other non-current liabilities		62,611,981	6,512,261	69,124,242
		P 5,180,067,808	P 1,017,327,835	P 6,197,395,643
Total adjustment to equity			P 617,407,562	

c. The changes in the 2011 and 2010 consolidated profit and loss account for the years ended December 31, 2011 and 2010 due to the foregoing adjustment is presented as follows:

	Notes	As Previously Reported	Adjustment	As Restated
2011				
Revenues				
Sale of goods	24	P27,226,659,662	(P 152,866,550)	P27,073,732,112
Charter fees		-	133,482,323	133,482,323
Rent and storage income		-	76,051,056	76,051,056
Port revenues		-	57,579,514	57,579,514
Fuel service, storage income and other revenues	24, 28	241,617,641	(131,546,052)	110,071,589
		27,468,277,303	(17,299,709)	27,450,977,594
Cost and Expenses				
Cost of sales and services	17	25,491,661,245	(164,044,016)	25,343,748,354
Selling and administrative expenses	18	1,152,433,560	101,117,183	1,253,550,743
		26,644,094,805	(62,926,833)	26,581,167,972
Operating Profit		824,182,498	45,627,124	869,809,622
Other Income (Charges)				
Finance costs	19	(290,495,842)	(56,041,235)	(346,537,077)
Finance income	19	11,036,718	10,891,669	21,928,387
Gain (loss) on sale of property – net		-	41,885,044	41,885,044
Others		7,941,763	7,091,474	15,033,237
		(271,517,361)	3,826,952	(267,690,409)
Profit before tax and pre- acquisition income		552,665,137	49,454,076	602,119,213
Pre- acquisition income		(3,163,822)	-	(3,163,822)
Profit before tax		549,501,315	49,454,076	598,955,391
Tax income	21, 23	(39,000,480)	(3,408,614)	(42,409,094)
Net profit	26	510,500,835	(46,045,462)	556,546,297
Other comprehensive income				
Revaluation (reversal of revaluation) of tankers		-	(55,931,472)	(55,931,472)
Tax expense on revaluation of tankers		-	16,779,443	16,779,443
		-	(39,152,029)	(39,152,029)
Total comprehensive income	26	P 510,500,835	P 6,893,433	P 517,394,268

	Notes	As Previously Reported	Adjustment	As Restated
2010				
Revenues				
Sale of goods	24	P14,639,250,037	(P 94,645,855)	P14,544,604,182
Charter fees		-	228,093,378	228,093,378
Rent and storage income		-	45,680,378	45,680,378
Port revenues		-	45,789,816	45,789,816
Fuel service, storage income and other revenues	24, 28	152,938,176	(87,545,887)	65,392,289
		14,792,188,213	137,371,829	14,950,700,398
Cost and Expenses				
Cost of sales and services	17	13,315,948,022	(70,679,275)	13,245,268,746
Selling and administrative expenses	18	757,365,711	128,839,340	886,205,051
		14,073,313,733	157,060,065	14,230,377,240
Operating Profit		718,874,480	79,211,765	798,086,245
Other Income (Charges)				
Finance costs	19	(316,387,078)	(82,152,836)	(398,539,914)
Finance income	19	23,989,997	492,199	24,482,196
Gain (loss) on sale of property – net		-	(36,609,384)	(36,609,384)
Others		4,142,835	(3,161,680)	981,155
		(288,254,246)	(121,431,701)	(409,685,947)
Profit before tax		430,620,234	(42,219,936)	388,400,298
Tax income	21, 23	(3,406,725)	27,828,283	24,421,558
Net profit	26	427,213,509	(14,391,654)	412,821,855
Other comprehensive income				
Revaluation (reversal of revaluation) of tankers		-	(6,751,545)	(6,751,545)
Tax expense on revaluation of tankers		-	2,025,464	2,025,464
		-	(4,726,081)	(4,726,081)
Total comprehensive income	26	P 427,213,509	(P 19,117,735)	P 408,095,774