fuels life.

PHOENIX PETROLEUM PHILIPPINES, INC.

ANNUAL REPORT 2007

OUR VISION

As the first home-grown major player in the Philippine petroleum industry, we will be:

- The "brand of choice" in Mindanao
- The benchmark for excellence in the petroleum retail industry
- The best value for money and unmatched customer experience

OUR MISSION

Make "Phoenix Fuels Life" an experience within reach of every Filipino.

- We deliver a quality of service unrivalled in the industry
- We put our customers first
- We deliver superior returns to our stakeholders
- We enrich the quality of life of our people and their families
- We create opportunities to maximize the potential of the individual
- We take social responsibility to heart by building programs to nurture the environment and uplift the life of the communities we serve

OUR CORE VALUES

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

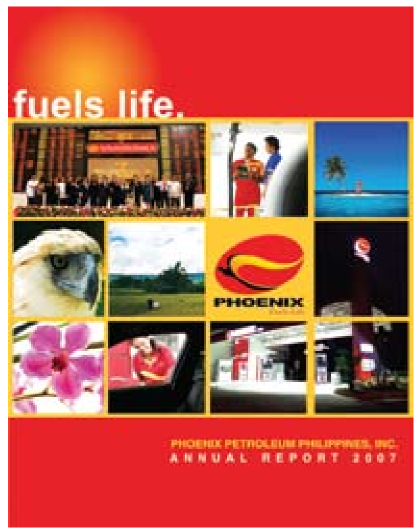
Excellence
We strive to be better in everything we do.

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

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

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

Stewardship
We nurture our resources responsibly.



ABOUT OUR COVER
Phoenix Petroleum Philippines, Inc. provides the fuel that brings cars to destinations and airplanes to distant places. Phoenix is also about life and lives – of people and communities by having stations in strategic locations. By serving new areas, where a gas station is always the first sign of economic life, we fuel development by giving opportunities to locals. In the business of a precious natural resource, we respect the environment that gives and nurtures life.

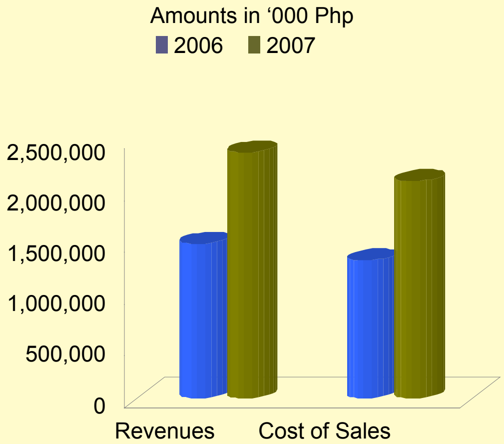
Life is a journey, each mile leading closer to the destination. Whether that destination is a place favorite or new, or a dream to fulfill as in an opportunity for progress, Phoenix is committed to fueling lives and the passion in life.

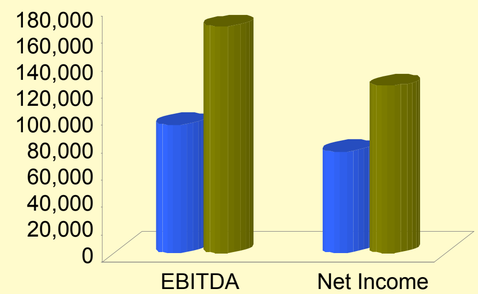
CONTENTS

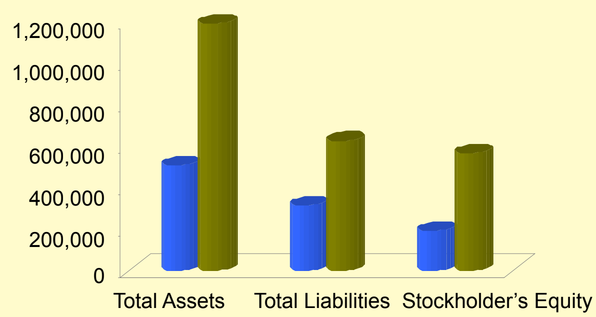
FINANCIAL HIGHLIGHTS

As of and for the years ended December 31
(All amounts expressed in thousand, unless otherwise stated)

	2007	2006
Income Statement Data:		
Revenues	2,376,817	1,493,683
Cost of Sales	2,097,438	1,330,317
EBITDA	165,696	93,554
Net Income	122,359	74,262
Balance Sheet Data:		
Current Asset	762,661	413,351
Non-current Asset	429,543	94,293
Total Assets	1,192,205	507,644
Total Liabilities	625,623	313,896
Stockholders' Equity	566,582	193,748
Cash Flow		
Net Cash Flow from Operating Activities	(6,138)	90,967
Net Cash Provided by (Used in) Investing Activities	(236,312)	(39,715)
Net Cash Provided by (Used in) Financing Activities	265,663	13,923
Consolidated Project and Capital Expenditures	353,074	53,293
Financial Ratios		
Current Ratio[1]	1.42 : 1	1.32 : 1
Debt to Equity[2]	1.1 : 1	1.62 : 1
Return on Equity[3]	32%	68%
Return on Assets[4]	14%	22%
Stock Information		
Market Capitalization-Year End (in '000)	1,023,856	N/A
Stock Price-Closing (Year End)	7.10	N/A
Net Book Value Per Share[5]	3.93	1.67
Earnings Per Share[6]	0.94	3.10







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

Performance and Growth are our tools for success.

We execute plans efficiently and effectively to exceed our goals. We invest in new opportunities to secure growth for our business.

We perform.

In 2007, we did what we said we would do.

- Realizing that financial strength is key to the fulfillment of our plans, we successfully listed on the Philippine Stock Exchange, the first petroleum company to do so since the Oil Deregulation Act was passed in 1998.

- Embarked on our vision to be the brand of choice in Mindanao by more than doubling our share of stations: from a mere 20 Phoenix Fuels Life stations, we ended the year with 33 operational stations and an equal number in the various stages of construction. By end of April 2008, Phoenix has 60 operating stations.

- Strengthened our supply chain through global partnerships as we partnered with the Petroleum Authority of Thailand (PTT) and UAE's Emarat.

- Enhanced efficiency of management and operations by investing in people and technology.

- Delivered solid operating performance with growth in all indicators.

We fuel growth.

In an industry that continues to evolve, we seize opportunities.

- Introduce new products, widen distribution channels, and double our share of stations in the Davao region.

- Expand our petroleum depot, terminaling and distribution facilities.

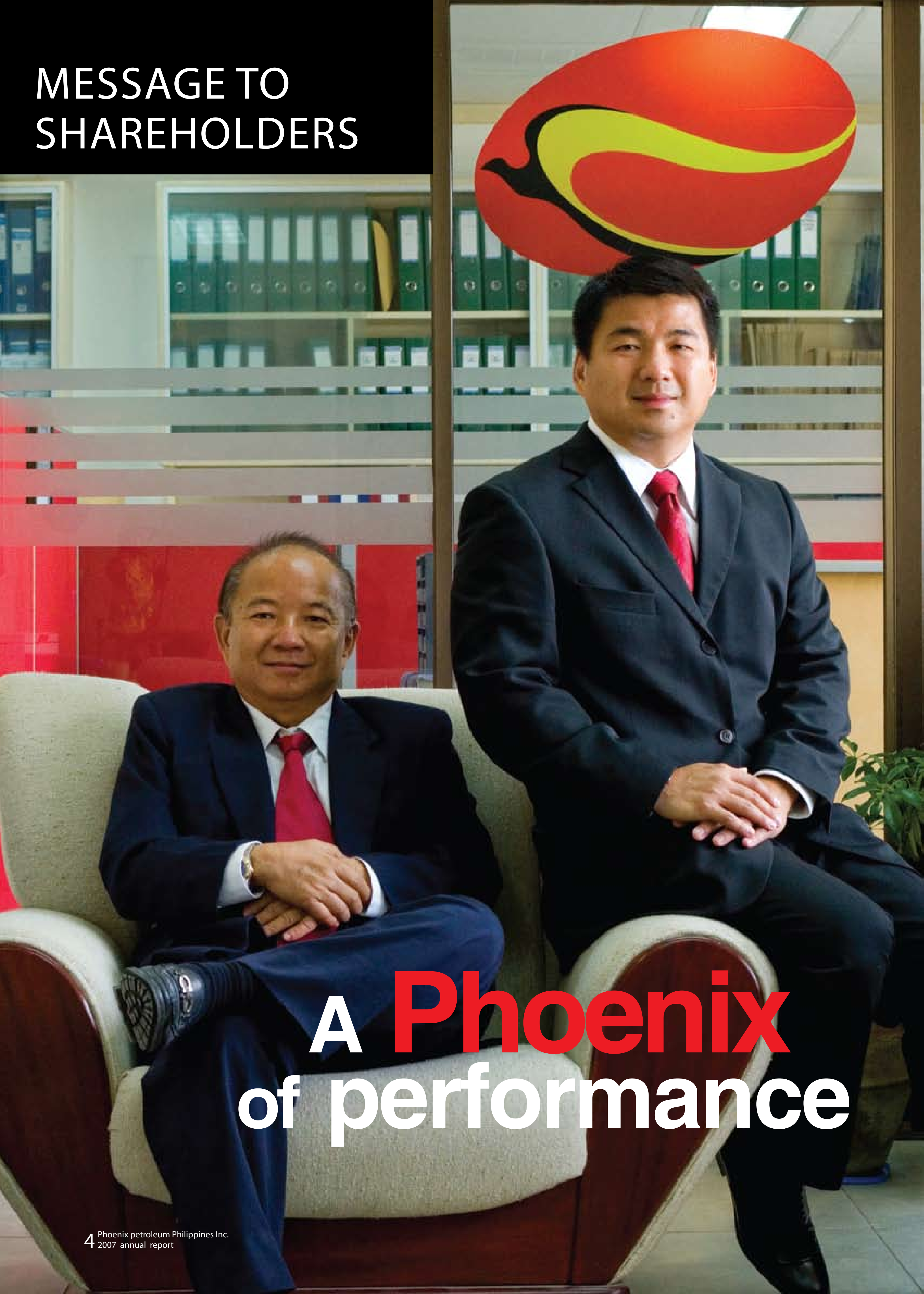
- Strengthen petroterminaling, depot support, and logistics.

- Continue to build brand equity.

- Increase competitive margins by improving efficiencies and expanding to related businesses.

- Exceed industry growth and become the industry's fourth major player in the areas we operate.

MESSAGE TO SHAREHOLDERS



A Phoenix of performance

We are pleased to report to you on an excellent year for Phoenix Petroleum Philippines, Inc. 2007 was a year of milestones for your company, driven by the hard work and focus of the men and women we are proud to call Team Phoenix.

Phoenix performed strongly and on target in 2007. Total revenues reached P2.377 billion, 59% higher than the previous year as total volume grew by 42%, led by the retail sector's 100% leap. As a result, our consolidated net income reached P122 million, 65% higher than the previous year. Total assets posted a 135% increase to P1.19 billion.

Our strong performance is the result of strategic decisions we made to fulfill our vision to be the brand of choice in Mindanao; a cornerstone to our commitment to become a major petroleum company and to maximize the return of your investment through consistent growth in revenue and income.

THE TRANSFORMATION OF THE PHOENIX

On July 11, 2007, Phoenix became the first petroleum company to be publicly-listed after the Downstream Oil Deregulation Act was implemented in 1998, and the first Davao-based firm to do so. The response to our IPO was overwhelming – 15 times oversubscribed – raising a net of P256 million for the company.

PNX shares reached a high of 14.50 during the first trading days, giving investors a maximum return of 48% on their investment.

A SOLID SUPPLY CHAIN

Giant strides were also taken in strengthening the company as it moved towards achieving a seamless supply chain.

Supply security was assured through global partnerships with our suppliers, PTT Philippines, a subsidiary of the Petroleum Authority of Thailand, and Emarat, a petroleum company based in the United Arab Emirates. Shipping logistics was further strengthened through a Contract of Affreightment with Chelsea Shipping Corporation, an affiliate which operates 11 vessels. Moreover, the company's expanded fleet of lorry tankers delivers 24/7 to customers.

WIDER REACH

Our performance and growth was fueled by three major factors: higher market access in the areas we operate, better product mix and introduction of new petroleum products, and better efficiencies even as we invested in strengthening the company's infrastructure.

Phoenix became the fourth major oil player in Southern Mindanao

Phoenix became the fourth major oil player in Southern Mindanao as we increased our share of stations in the area to 19% and market share rose to 6%. We entered the areas of General Santos and Cotabato cities as well as the province of Sultan Kudarat. By the end of 2007, we had opened our 33rd retail station, with an equal number in various stages of completion.

We also expanded our product line by introducing lubricants and car care products. By year-end, we had completed 80% of our distributor rollout program in 15 territories nationwide. Phoenix lubricants continued its inroads to the market. By March 2008, the Phoenix brand is estimated to have as much as 3.4% and 4.2% market share in the 2T and Diesel engine lubricants categories respectively, in the Southern Mindanao market. No mean feat in one year of operations in a highly competitive environment.

The increasing numbers of business partners joining the "Phoenix Fuels Life" family of retail stations is evidence of the public's growing confidence on the Company. By year-end, 72 business partners had signed on, 68% putting up dealer-owned, dealer-operated retail stations.

BUILDING ON OUR CORE BUSINESS

In 2007, Phoenix through its wholly-owned subsidiary Phoenix Global Mercantile Inc. became the exclusive Philippine distributor of lubricants of Emarat. We also ventured into Petrologistix (provides trucking services for PTT operations in Subic and Clark, Pampanga), PFL Petroleum Management (manages six PTT stations in Luzon) and Petroterminals Philippines Corporation. These operations are offshoots of our core businesses.

We will maintain our successful strategy of expanding volume with retail stations and logistics

LAYING THE GROUNDWORK FOR THE FUTURE

We took huge steps to strengthen our management systems. Our Davao bulk plant and aviation fuel tank truck operations is already ISO 9001:2000 accredited. We have adopted a SAP-based integrated computer system, automating transaction processing and greatly enhancing operations efficiency.

At the heart of our systems are our people. In 2007, we made significant strides in managing our human resources. The organization was restructured to make it more responsive to the speed and size of our growth. We adopted a customer-focused and cost-effective approach to building organization capability, competency management, and long-term career opportunities. We also institutionalized health and welfare benefits, demonstrating that, in spite of our growth from a small family business to a publicly-listed company, we continue to make the welfare of our people a primary concern.

MAKING A DIFFERENCE

Through Phoenix Foundation Philippines Inc., we launched tree-planting and feeding activities as part of our community service. We will expand our corporate social responsibility programs, recognizing that the expansion of our business is also an opportunity for us to serve and empower individuals and communities. Environment, education, and poverty alleviation will be the future focus areas of our CSR.

SOARING PHOENIX

2007 was a decisive year in building a strong, stable company ready to keep on growing in the years ahead. Consolidating resources and operations will be the basis for our continuing growth. We will maintain our successful strategy of expanding volume with retail stations and logistics in the Mindanao market that we consider our home, even as we begin to spread our wings nationwide. We are also growing with our business partners who have shared with us their expansion plans so that we can continue to grow with them.

As a homegrown company in this evolving industry, we commit to explore and to seize opportunities, so that we can deliver the best value to you.

Thank you for your continued faith and support in making the Phoenix fly higher.

DOMINGO UY
Chairman

DENNIS A. UY
President and Chief Executive Officer

SUBSIDIARIES

PETROTERMINALS PHILIPPINES CORP.

PPC operates oil depots, storage facilities and other allied services of Phoenix Petroleum Philippines. PPC is in the first phase of constructing a P600-M Petrochemical Terminal Facility in a 3.5 hectare property in BUIP, Batangas and has completed construction of a storage facility in New Washington, Aklan.

PETROLOGISTIX SERVICES CORP.

PSC provides hauling, trucking, and other logistics services for various companies, with PPPI and PTT as major clients.

PFL PETROLEUM MANAGEMENT INC.

PFL is the retail management arm of the group. Currently, PFL manages six retail stations of PTT Philippines, the local subsidiary of PTT Thailand, one of the biggest petroleum companies in Southeast Asia.

PHOENIX GLOBAL MERCANTILE INC.

PGMI is the exclusive Philippine distributor of lubricants by Emarat, a major petroleum company based in the United Arab Emirates.

PHOENIX PETROLEUM FOUNDATION INC.

PFPI lives up to the PPPI core value of stewardship by initiating projects in service of the community. PFPI's main thrust is three-fold: education, where the country's future lies; the environment as the fragile nature is where Phoenix products are ultimately sourced; and serving the less fortunate as we believe in the upliftment of others.

By giving back, we contribute to elevating the quality of life of the people we help, because we believe that life comes first.

PRODUCTS AND SERVICES

We are engaged in the business of trading refined petroleum products, lubricants and other chemical products, operation of oil depots and storage facilities, and allied services.

TRADING, SUPPLY AND DISTRIBUTION OF FUELS

We offer a wide range of petroleum products sold through a network of retail service stations in Mindanao. Our service stations have expanded from 5 in 2005 to 60 by the end of April 2008, with more stations set to open across the country.

We also service the fuel requirements of diverse industries in Southern Mindanao, delivering supplies to or setting up our own pump station within the client's area of operations.

TERMINALING, HAULING AND INTO-PLANE SERVICES

Our clients lease storage space in our terminal depots and, since 2005, we have been the exclusive logistics partner of Cebu Pacific Airlines, providing hauling and into-plane services in the cities of Davao, Cagayan de Oro, Cotabato, and General Santos and, in the very near future, Zamboanga City and Caticlan.

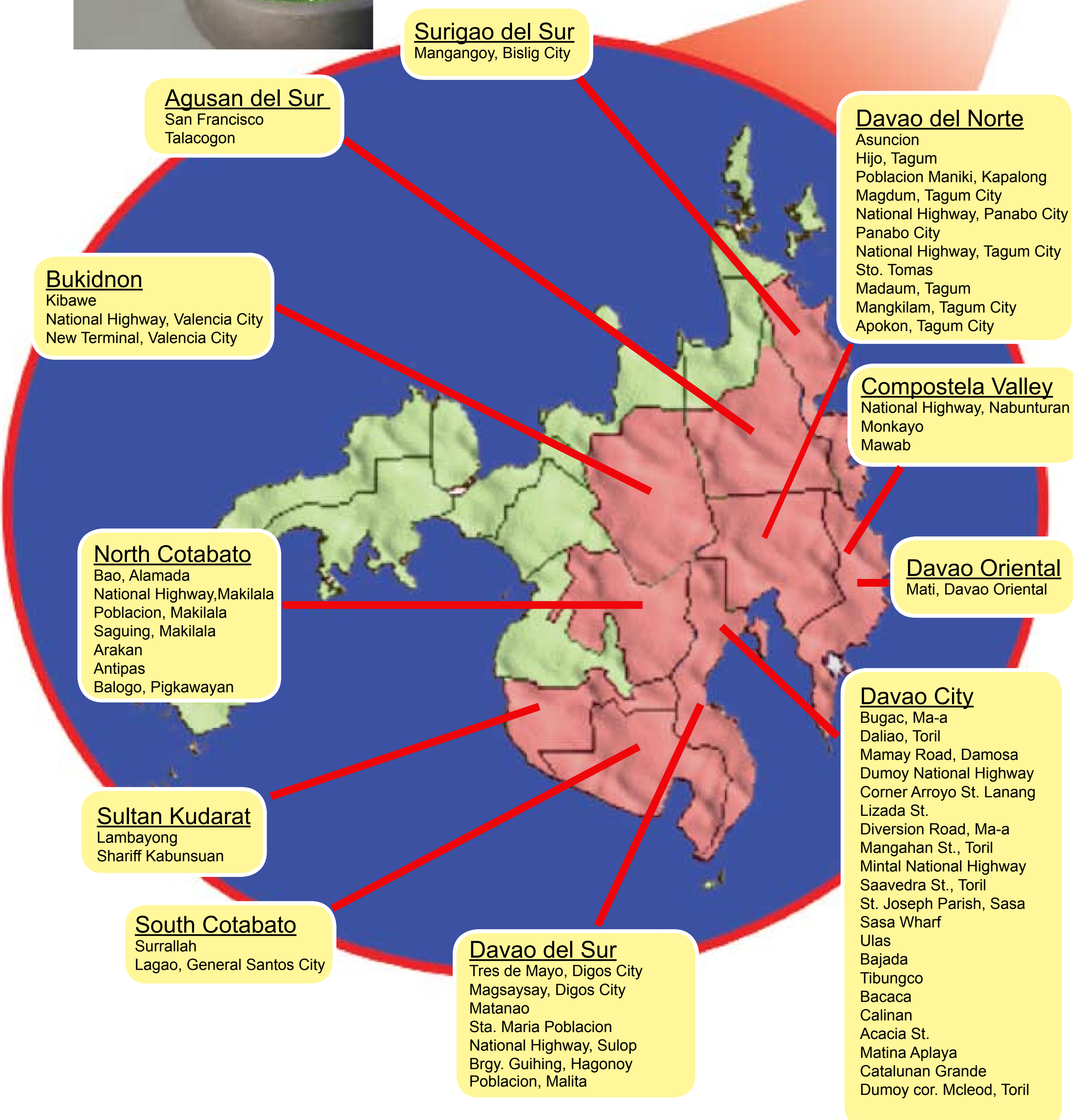
More than just a petroleum company, we operate our own fleet of trucks that deliver products to customers 24 x 7.

LUBRICANTS AND CAR CARE

Our array of automotive lubes and car care products adhere to the highest standards set by the "Phoenix Fuels Life™" brand. Lubricants and car care products are currently sold in all Phoenix fuel stations throughout Southern Mindanao and in selected auto supply stores nationwide. We are also the exclusive Philippine distributor of lubricants by Emarat, a major petroleum company based in the United Arab Emirates.

WHERE WE ARE

By the end of April 2008, Phoenix Petroleum Philippines has grown to 60 stations in Mindanao, becoming the fourth major player in the areas we operate.



Map of Mindanao

Fueling Growth

Our path forward
is hinged on selective and
strategic expansions
as we explore and seize new
opportunities for growth.

In the next five years, we will focus on the following main strategies:

STRENGTHEN OIL SUPPLY SECURITY

We have formed strategic partnerships with local and global refined petroleum products suppliers through local subsidiaries. This includes Total of France and PTT of Thailand. We have also signed a Supply Agreement with PTT Philippines. We have doubled our supply sources and intend to explore the international markets in the near future.

EXPAND PETROLEUM DEPOT, TERMINALING AND DISTRIBUTION FACILITIES

To support our expanded market presence both in wholesale as well as retail distribution, Phoenix has almost completed the doubling of our Davao Depot capacities. We also embarked on the establishment of additional petroleum depots and distribution facilities in strategic locations in the entire country. We have acquired rights to four locations nationwide where we have started to put up storage facilities.

EXPAND RETAIL NETWORK, WHOLESALE AND TRADING OPERATIONS

By end of 2007, Phoenix had 33 opened retail stations with an almost equal number in the various stages of completion. By end April, 60 stations will be operating. Half of the stations opened after 2006 are in new areas.

Phoenix will have opened its first station in Metro Manila as well as Northern Luzon at the end of the first half of 2008 and, by the end of the year, in the cities of Cebu and Cagayan de Oro.

CONTINUE TO BUILD BRAND EQUITY

Branding continues to be a cornerstone of our marketing campaign to make "PhoenixFuelsLife" the brand of choice especially in Mindanao. As we expand our retail network, the "PhoenixFuelsLife" brand equity is further established. We continue our selective advertising in the primary areas we operate.

'Win 100 cellphones" promotions campaign, the company's first ever retail network-wide promo, was launched in August and lasted until October 2007. While modest, it was greeted with enthusiasm by our dealers and customers. Phoenix currently has an on-going "Tank-Full of Life" promotion campaign.

STRENGTHEN OPERATIONS AND RETAIL MANAGEMENT SYSTEMS

A SAP-based integrated computer system was in place Company-wide by July 2007. On February 2008, the Bureau Veritas accredited the Phoenix Davao bulk plant and aviation fuel tank truck operations as ISO 9001:2000 compliant. In the last quarter of 2007, we also implemented a company healthcare and insurance system. We expect continuous judicious investment on people and infrastructure to further boost the performance of Phoenix.

EXPAND PRODUCT OFFERINGS AND DISTRIBUTION CHANNELS

As part of our thrust to strengthen the brand, more products led by the "PhoenixFuelsLife" lubricants line will be launched. These product offerings, covering the vehicles' needs (except spare parts) as well as driving-related requirements, will be made available not only in Phoenix Nests but also through other traditional distribution channels.

PEOPLE, PASSION, PERFORMANCE, INNOVATION

Underlying Phoenix Petroleum Philippines, Inc (PPPI)'s growth has been our culture of "people, passion, performance and innovation." Our future will always be fueled by this culture.

BOARD OF DIRECTORS

Domingo T. Uy
Chairman

Chairman of PPPI since 2007; founder and director since 2002. Mr. Uy is the Chairman of Granscor Corporation, a holding company engaged in real estate, mining and commodities trading. He is also a Director of Granland Resources Corporation, a corporation involved in real estate development, and Aquamines, Philippines, a firm engaged in prawn farming. Mr. Uy is currently involved in socio-civic programs and is a Director of the Philippine National Red Cross, Davao Chapter. He is also the Past President of the Davao City Sta. Ana Lions Club and the Kang Ha Uy Association, Davao Chapter.

Dennis A. Uy
President,
Chief Executive Officer

Founder, President and Chief Executive Officer of PPPI since 2002. He is currently the Chairman of the Board of Directors of Phoenix Petroleum Holdings, Inc., the holding company of PPPI and Udenna Corporation, the ultimate parent company of PPPI. Mr. Uy is also President and CEO of Udenna Management & Resource Corp. and its subsidiaries: Chelsea Shipping Corporation, Global Synergy Trade and Distribution Corporation, Udenna Development Corporation, Value Leases Inc. and Udena Foundation, Inc. He was an Independent Director of Transpacific Broadband Group, International. He is a member of the Management Association of the Philippines, the American Chamber of Commerce - Davao Chapter, the Davao City Chamber of Commerce and a Business Sector representative to the Chinatown Development Council in Davao.

Jose Manuel R. Quimson
Vice President

Director of PPPI since 2007 and General Manager of Petroterminals Philippines, Inc., a wholly-owned subsidiary of PPPI. He is also the Vice President & Chief Operating Officer of Chelsea Shipping Corp. Mr. Quimson is a member of the Board of Directors of the Udenna Corporation and its subsidiaries. Previously, he was President of Petrotrade Philippines, Inc., Vice Chairman of Herma Shipyard, Inc., President of Transman Shipping Corporation, President of Transport Managers, Inc., and Managing Director of Delbros Group of Companies.

Socorro T. Ermac-Cabreros
Corporate Secretary and Asst. Vice President for Legal

Director and Corporate Secretary of PPPI since 2007. She is also Corporate Secretary and member of the Board of Directors of Udenna Corporation and its subsidiaries. Prior to joining the Company, she was a Legal Counsel of Philippine National Bank in Davao City. Atty. Ermac-Cabreros has worked for the government such as Office of the Ombudsman for Mindanao and later as Prosecutor for the Province of Davao del Norte after engaging in the private practice of law. She is an active member of the Integrated Bar of the Philippines and was the immediate past Vice President for the Davao City Chapter.

J.V. Emmanuel A. De Dios
Director

Elected regular director of PPPI in 2008, after being an Independent Director since 2007. He is President of Nido Petroleum Philippines, Inc. and was Chairman of thePhilippine National Oil Company, Exploration Corporation. Prior to PNOCEC, Atty. De Dios was the Undersecretary of the Philippine Department of Energy where he supervised the Department's Planning Bureau and Administration, and Downstream Oil and Gas Industry. He was also an Associate of Romulo Mabanta Buenaventura Sayoc & De Los Angeles Law Office where he practiced Corporate, Commercial, Energy and Securities Law. Atty. De Dios also worked under former Chief Justice Hilario G. Davide, Jr. as a Senior Law Clerk. He is an active member of the Integrated Bar of the Philippines where he served as Director for the KAMANAVA Chapter. He is also a member of the Council of Advisers at the Harvard Law School Club of the Philippines. He took his Master of Laws at the Harvard Law School.

Ricardo S. Pascua
Independent Director

Independent Director of PPPI since 2007 and currently serves in the same capacity for various corporate and foundation boards. He retired from active employment but sits as Chairman of the Board of Readyfoods Manufacturing Corporation. Mr. Pascua is also the Chairman of the Facilities and Property Management Technologies, Inc., the Biometrix Technology Philippines Corporation. Prior to his retirement, Mr. Pascua was the Vice Chairman, President and Chief Executive Officer of the Metro Pacific Corporation. He was the Executive Director of First Pacific Company Limited and served in companies such as SMART Communications, Inc., the United Commercial Bank in San Francisco, CA, the First Pacific Bank in Hong Kong, and the 1st eBANK in Manila. Mr. Pascua oversaw the preparation and initial execution of the Master Development Plan when he was Vice Chairman, President and Chief Executive Officer of Fort Bonifacio Development Corporation, now known as the Bonifacio Land Corporation.

Monico V. Jacob
Independent Director

Elected Independent Director of PPPI in 2008. Mr. Jacob is President and Chief Executive Officer of the STI Education Services Group. He also sits as Chairman and Managing Partner of CEOs, Inc. and Chairman of Global Resource for Outsourced Worker, Inc. Prior to these, Mr. Jacob was Chairman and Chief Executive Officer of Petron Corporation. As Chairman, he presided over its privatization and implemented and led the partnership of the government with Saudi Aramco in Petron. He also presided over the Initial Public Offering (IPO) of Petron shares which has since been hailed as the most successful IPO offering in the country. He retired from Petron in July 1998. He was also Chairman and CEO of Philippine National Oil Company (PNOC) and all of its subsidiaries. As Chairman of the PNOC, he presided over the privatization of the PNOC Dockyard and Engineering Corporation. He was Partner of the law firm of Jacob Acaban Corvera Valdez and Del Castillo and was an active trial lawyer. He is a member of the Management Association of the Philippines (MAP) of which he was President for 1998; Board of FINEX; and Integrated Bar of the Philippines.

MANAGEMENT COMMITTEE

Dennis A. Uy
President and
Chief Executive Officer

Nicholas D. Dy
Chief Operating Officer of PPPI and
General Manager, PFL Petroleum
Management, Inc.

Jose Manuel R. Quimson
Vice President of PPPI &
General Manager, Petroterminals
Philippines Corporation

Sandra B. Elecerio
Vice President for Human
Resources and Shared Services

Edgardo A. Alerta
Assistant Vice President
for Sales in Mindanao

Alberto D. Alcid
Assistant Vice President
for Lubes and Chemicals

Socorro T. Ermac-Cabreros
Assistant Vice President
for Corporate Legal

Alexander A. Lumbuan
Assistant Vice President for
Engineering & Maintenance

Alejandro U. Suan
Manager for Davao Depot
Operations and Logistics

Chryss Alfonsus V. Damuy
Comptroller

Rebecca Pilar C. Caterio
Treasury Manager

Romil D. Langones
Credit and Collection
Manager

Ramon M. de Vera
Senior Financial Adviser

CORPORATE GOVERNANCE

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

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

BOARD STRUCTURE AND PROCESS

Key Roles

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

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

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

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

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

• **Audit Committee.** The Audit Committee provides oversight financial management function in managing credit, market, liquidity, operations, legal and other risks of the Corporation. The committee also oversees Phoenix Petroleum Philippines' internal control, financial reporting and risk management processes on behalf of the Board of Directors. Furthermore, the committee checks all financial reports against its compliance with both the internal financial management policies and pertinent accounting standards including regulatory requirements. The Committee has given its recommendation on the appointment of Punongbayan and Araullo (P&A) as the Company's external auditors for 2008.

Composition

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

Chairman and Chief Executive Officer

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

Independent Directors

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

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

BOARD PERFORMANCE

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

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

In 2007, the Board conducted six meetings: two meetings with the old members and four meetings with the new members. The new set of Board of Directors was approved by the Securities and Exchange Commission on March 2007. In all Board meetings, all members were present.

Board of Directors

	Regular Meeting				%
DIRECTOR	May 8	Sept. 21	Oct. 9	Dec.3	
Domingo T. Uy	P	P	P	P	100%
Dennis A. Uy	P	P	P	P	100%
Teodoro A. Polinga*	P	P	P	P	100%
Jose Manuel R. Quimson	P	P	P	P	100%
Socorro Ermac T. Cabreros	P	P	P	P	100%
J.V. Emmanuel A. de Dios**	P	P	P	P	100%
Ricardo S. Pascua	P	P	P	P	100%

* Resigned on February 22, 2008.
** Appointed as Regular Director on March 7, 2008, then replaced by Mr. Monico V. Jacob as the new Independent Director

P = Present

Committee Members

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

	Executive Committee	Nomination Committee	Compensation Committee	Audit Committee
Domingo T. Uy	C	M		M
Dennis A. Uy	M	C	M	
Teodoro A. Polinga[1]	M		M	
Jose Manuel R. Quimson	M			
Socorro Ermac T. Cabreros			M	
J.V. Emmanuel A. de Dios*[2]		M		C
Ricardo S. Pascua*			C	M

1 Mr. Polinga held this position until February 22, 2008

2 Mr. de Dios was Appointed as Regular Director on March 7, 2008, then replaced by Mr. Monico V. Jacob as the new Independent Director

C- Chairman M-Member *Independent Director

ACCOUNTABILITY AND AUDIT

Independent Public Accountants

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

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

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

Audit & Audit-related Fees (in Thousands PHP)	
2007	725
2006	440

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

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

Compliance System

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

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

DISCLOSURE AND TRANSPARENCY

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULT OF OPERATIONS

Revenues

Phoenix Petroleum Philippines, Inc. generated total revenues of P2.377 billion in 2007, a 59% increase over 2006's P1.494 billion, primarily due to substantial increases in sales and distribution of petroleum products and income from fuel service and storage.

• Sales on trading of petroleum products increased by 58% from P1.47 billion in 2006 to P2.32 billion in 2007 resulting principally from a wider distribution network, introduction of new product lines for the Phoenix Lubricant products and expanded institutional customer base. The number of operating Phoenix Fuels Life retail stations increased to 33 at the end of December 2007 against 20 in 2006. An additional 31 other stations were in various stages of completion as of end 2007.

• Income from fuel service and lease of its storage facilities rose from P27 million in 2006 to P48 million in 2007 primarily due to higher volume stored and withdrawn.

• Interest income from money market placements increased to P13 million in 2007 from P1 million in 2006 mainly due to higher amount of deposit placements following the issuance of new shares of stock through the Company's Initial Public Offering on July 11, 2007.

Costs and Expenses

The Company incurred total costs and expenses of P2.262 billion in 2007, a 59% increase against 2006's P1.419 billion.

Cost of sales in 2007 stood at P2.1 billion, a 58% increase from 2006's P1.33 billion relative to the substantial increase in the sales of petroleum products in 2007 versus 2006.

Increasing volume as well as the intensive expansion and growth of the Company's business operations resulted in higher Selling and Administrative Expenses.

Net Income

As a result of the foregoing, the Company's net income increased to P122 million in 2007 from P74 million in 2006.

Tax Due

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

The tax benefit reported in 2007 amounting to P4.35 million substantially refers to deferred tax income of subsidiaries relating to net operating loss carry over (NOLCO).

In P thousands except for Per Share amounts	As of and for the years ended December 31 2005	2006	2007
Income Statement Data			
Revenues	679,736	1,493,683	2,376,817
Cost of sales	643,011	1,330,317	2,097,438
Net income	3,720	74,262	122,359
Balance Sheet Data			
Current Assets	101,043	413,351	762,661
Non-current Assets	61,058	94,293	429,543
Total Assets	162,101	507,644	1,192,204
Total Liabilities	138,615	313,896	625,622
Stockholders' Equity	23,486	193,748	566,582
Earnings per Share	0.37	3.10	0.94
Book Value per Share	2.35	1.67	3.93

FINANCIAL CONDITIONS

Total resources of the Company as of December 31, 2007 amounted to P1.192 billion, a growth of 135% compared to P508 million as of December 31, 2006. The improvement in its financial position reflected the soundness of the Company's strategic directions as well as its overall outstanding performance.

Cash and cash equivalents increased by 26% from P90.9 million as of December 31, 2006 to P114.2 million as of December 31, 2007 due to proceeds from issuance of additional shares of stock and additional paid-in capital through the Initial Public Offering on July 11, 2007.

The Company posted stronger liquidity position with Current Assets amounting to P762.7 million as of December 31, 2007, up from P413.4 million as of December 31, 2006.

Trade and other receivables increased to P361 million as of December 31, 2007 versus P208 million as of December 31, 2006 as volume of sales soared.

Inventories increased substantially by four times, from P44 million as of December 31, 2006 to P178 million as of December 31, 2007 in relation to the increase in sales volume as well as the strategic decision to take a long position on inventory following the increasing price trends of the commodity in the international market.

Due from related parties decreased by 36% from P56 million as of December 31, 2006 to P36 million as of December 31, 2007 due to collection of advances, granted in support of initiatives geared towards seizing business opportunities to strengthen the Company's competitive position in the industry.

Restricted deposits increased to P45 million as of December 31, 2007 from P14 million as of December 31, 2006 due to additional restricted compensating deposits with the Company's commercial banks for additional credit line facilities.

Other current assets increased to P29 million as of December 31, 2007 from P1 million as of December 31, 2006 due to higher input value added tax net of output tax related to higher procurement of inventories and capital expenditures in 2007. Also, there was increase in prepaid advance rental for lease of various properties for retail stations.

As of December 31, 2007, the Company's property and equipment, net of accumulated depreciation, increased to P414 million compared to P93 million as of December 31, 2006 as the Company executed its expansion programs. The financial commitments were primarily in the establishment of additional petroleum retail network, acquisition of land/ construction of depot and terminaling facilities, increase in lorry and refueller tankers to support its logistical requirements, and roll-out of the nationwide distributorship network of its Lubricants & Chemicals Division.

Other non-current assets increased to P16 million as of December 31, 2007 from P0.92 million as of December 31, 2006 due mainly to deferred tax assets of subsidiaries relating to net operating loss carry over and goodwill recognized at date of acquisition of subsidiaries.

Loans and borrowings under current liabilities primarily consist of liabilities under letters of credit and trust receipts and current portion of installment payable and mortgage payable. Liabilities under letters of credit and trust receipts increased by 135% from P140 million as of December 31, 2006 to P330 million as of December 30, 2007 due to higher volume of sales as well as the Company's strategic decision to take a longer position on inventory. Installment payable and mortgage payable refers to the acquisition of land in strategic locations and service vehicles.

Trade and other payables increased by 4%, from P169 million as of December 31, 2006 to P175 million as of December 31, 2007 as a result of higher volume of sales.

Loans and borrowings under non-current liabilities substantially refer to installment payable on the acquisition of land and mortgage payable for acquisition of service vehicles. This stood at the level of P88 million as of December 31, 2007. The purchase of land in strategic locations is for the construction of depot and terminal facilities in line with the Company's expansion moves. The amount is primarily due to Bacnotan Industrial Park Corporation, from which the Company bought some 35,000 square meters of land and payable over a period of five years payable until March 1, 2012.

Total Stockholders' Equity increased to P567 million as of December 31, 2007 from P194 million as of December 31, 2006 due to higher profits and issuance of new shares of stock.

Cashflow

Net Cash outflow from operating activities in 2007 amounted to P6.1 million as a result of management's strategic decision to invest in inventories and move aggressively to increase sales.

Cash flow used in investing activities amounted to P236 million. This reflects the Company's additional investments and expansion in Phoenix Fuels Life petroleum retail network, acquisition of land for construction of depot and terminaling facilities, increase in lorry and refueller tanker to support its logistic needs, and roll-out of the nationwide distributorship network of its Lubricants & Chemicals Division.

Cash provided from financing activities amounted to P266 million primarily coming from the proceeds from issuance of new shares of stocks during the Parent Company's Initial Public Offering in July 2007, additional borrowing for and collection of advances from related parties.

TOP 5 KEY PERFORMANCE INDICATORS

	2007	2006	2005
Current Ratio[1]	1.42	1.32	0.73
Debt to Equity[2]	1.10	1.62	5.90
Return on Equity[3]	32%	68%	29%
Net Book Value Per Share[4]	3.93	1.67	2.35
Earnings Per Share[5]	0.94	3.10	0.37

Notes:

1 - Total current assets divided by current liabilities

2 - Total liabilities divided by tangible net worth

3 - Net income divided by average total stockholders' equity

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

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of P-H-O-E-N-I-X Petroleum Philippines, Inc. is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2007, 2006 and 2005. The financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

DOMINGO T. UY
Chairman of the Board

DENNIS A. UY
President

CHRYSS ALFONSUS V. DAMUY
Comptroller

Punongbayan & Araullo

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

T: +63 2 886-5511
F: +63 2 886-5506
+63 2 886-5507
www.punongbayan-araullo.com

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of P-H-O-E-N-I-X Petroleum Philippines, Inc. and subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2007 and 2006, and the consolidated income statements, statements of changes in equity and cash flow statements for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes. The financial statements of P-H-O-E-N-I-X Petroleum Philippines, Inc. for the year ended December 31, 2005 were audited by other auditors whose report, dated March 31, 2006, expressed an unqualified opinion on those statements.

Managements' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of P-H-O-E-N-I-X Petroleum Philippines, Inc. and subsidiaries as of December 31, 2007 and 2006, and of their consolidated financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

Ramilito L. Nañola
Partner
CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 0986666, January 4, 2008, Makati City
SEC Accreditation No. 0395-A
BIR AN 08-002511-19-2006 (Sept. 8, 2006 to 2009)
April 9, 2008

Certified Public Accountants
Member of Grant Thornton International Ltd.
BOA/PRC Cert. of Reg. No. 0002
SEC Accreditation No. 0002-F

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

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	2007	2006
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	**P 114,178,773**	P 90,965,420
Trade and other receivables	5	**360,649,617**	207,765,925
Inventories	6	**178,059,559**	43,542,512
Due from related parties	19	**35,599,076**	55,734,363
Restricted deposits	7	**44,751,820**	14,185,232
Other current assets	8	**29,422,475**	1,157,672
Total Current Assets		**762,661,320**	413,351,124
NON-CURRENT ASSETS			
Property and equipment - net	9	**413,703,395**	93,370,359
Other non-current assets	10	**15,839,793**	922,918
Total Non-current Assets		**429,543,188**	94,293,277
TOTAL ASSETS		**P 1,192,204,508**	P 507,644,401
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Loans and borrowings	11	**P 362,605,399**	P 143,683,413
Trade and other payables	12	**175,134,843**	168,756,093
Due to related parties	19	**-**	140,200
Total Current Liabilities		**537,740,242**	312,579,706
NON-CURRENT LIABILITIES			
Loans and borrowings	11	**87,882,299**	1,316,443
Total Liabilities		**625,622,541**	313,896,149
EQUITY			
Capital stock	20	**P 145,000,000**	P 116,000,000
Additional paid-in capital	20	**227,114,249**	-
Treasury shares	20	**(5,639,300)**	-
Retained Earnings		**200,107,018**	77,748,252
Total Equity		**566,581,967**	193,748,252
TOTAL LIABILITIES AND EQUITY		**1,192,204,508**	507,644,401

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(With Comparative Figures for 2005)
(Amounts in Philippine Pesos)

	Notes	**2007**	2006	2005
REVENUES				
Sale of goods - net		**P 2,315,981,493**	P 1,465,481,108	P 667,950,663
Fuel service and storage income		**48,250,811**	27,149,668	11,274,295
Interest income		**12,584,885**	1,052,395	511,545
		2,376,817,189	1,493,683,171	679,736,503
COST AND EXPENSES				
Cost of sales	13,14	**2,097,437,575**	1,330,317,443	643,010,957
Selling and administrative expenses	14	**165,232,699**	89,103,670	31,308,229
		2,262,670,274	1,419,421,113	674,319,186
INCOME BEFORE TAX AND PREACQUISITION LOSS		**114,146,915**	74,262,058	5,417,317
PRE-ACQUISITION LOSS		**3,861,745**	-	-
INCOME BEFORE TAX		**118,008,660**	74,262,058	5,417,317
TAX INCOME (EXPENSE)	16,18	**4,350,106**	-	(1,696,685)
NET INCOME	21	**P 122,358,766**	P 74,262,058	P 3,720,632
Earnings per share	21	**P 0.94**	P 3.10	P 0.37

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(With Comparative Figures for 2005)
(Amounts in Philippine Pesos)

	Notes	**2007**	2006	2005
CAPITAL STOCK	20			
Balance at beginning of year		**P 116,000,000**	P 10,000,000	P 2,500,000
Additional issuance during the year		**29,000,000**	106,000,000	7,500,000
Balance at end of year		**145,000,000**	116,000,000	10,000,000
ADDITIONAL PAID-IN CAPITAL	20	**227,114,249**	-	-
TREASURY SHARES	20	**(5,639,300)**	-	-
DEPOSITS ON FUTURE STOCK SUBSCRIPTIONS	20	**-**	-	10,000,000
RETAINED EARNINGS (DEFICIT)				
Balance at beginning of year		**77,748,252**	3,486,194	(234,438)
Net income		**122,358,766**	74,262,058	3,720,632
Balance at end of year		**200,107,018**	77,748,252	3,486,194
TOTAL EQUITY		**P 566,581,967**	P 193,748,252	P 23,486,194

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(With Comparative Figures for 2005)
(Amounts in Philippine Pesos)

	Notes	**2007**	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before tax		**P 118,008,660**	P 74,262,058	P 5,417,317
Adjustments for:				
Depreciation and amortization	9	**32,740,544**	16,270,399	8,496,604
Interest income		**(12,584,884)**	(1,052,395)	(511,545)
Interest expense	14	**6,246,974**	3,021,158	1,596,698
Operating income before working capital changes		**144,411,294**	92,501,220	14,999,074
Increase in:				
Trade and other receivables		**(152,883,692)**	(176,499,777)	(19,741,751)
Inventories		**(134,517,047)**	(2,614,966)	(35,120,961)
Restricted deposits		**(30,566,588)**	(14,185,232)	-
Decrease (increase) in other current assets		**(28,264,803)**	1,900,716	(13,134,093)
Increase in loans and borrowings		**189,304,178**	49,182,057	85,041,694
Increase in trade and other payables		**6,380,432**	140,682,572	29,973,402
Cash generated from (used in) operations		**(6,136,226)**	90,966,590	62,017,365
Cash paid for income taxes	18	**(1,682)**	-	(1,696,685)
Net Cash From (Used in) Operating Activities		**(6,137,908)**	90,966,590	60,320,680
CASH FLOWS FROM INVESTING ACTIVITIES				
Net acquisitions of property and equipment	9	**(238,329,682)**	(40,217,076)	(28,645,660)
Interest received		**12,584,884**	1,052,395	511,545
Decrease (increase) in other non-current assets		**(10,566,769)**	(550,529)	19,111,411
Net Cash Used in Investing Activities		**(236,311,567)**	(39,715,210)	(9,022,704)

Forward

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

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(With Comparative Figures for 2005)
(Amounts in Philippine Pesos)

Continued

	Notes	2007	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES				
Additional paid-in capital	20	**227,114,249**	-	-
Proceeds from issuance of shares of stock	20	**29,000,000**	96,000,000	7,500,000
Net decrease (increase) in due to/from related parties		**19,995,087**	(74,969,418)	(61,000,000)
Interest paid		**(6,246,974)**	(3,021,158)	(1,596,698)
Increase in treasury shares	20	**(5,639,300)**	-	-
Net increase (decrease) in mortgage payable		**1,439,766**	(4,086,782)	-
Proceeds from deposits on future stock subscriptions		**-**	-	10,000,000
Net Cash From (Used in) Financing Activities		**265,662,828**	13,922,642	(45,096,698)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**23,213,353**	65,174,022	6,201,278
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**90,965,420**	25,791,398	19,590,120
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 114,178,773**	P 90,965,420	P 25,791,398

Supplemental Information on Noncash Investing and Financing Activities

In 2007, the Group acquired land amounting to P134,853,747 through installment. The outstanding installment payable as of December 31, 2007 amounted to P114,743,898 (see Note 11).

In 2006, the Company acquired certain service vehicles amounting to P8.7 million through loans covered by chattel mortgages from local banks. Outstanding Mortgage Payable of the Company as of December 31, 2006 amounted to P4.6 million (see Note 11).

In 2006, deposits on future stock subscriptions amounting to P10.0 million were converted to common stock (see Note 20).

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the Parent Company) was incorporated in the Philippines on May 8, 2002 and is 54% owned by P-H-O-E-N-I-X Petroleum Holdings Inc. (PPHI), a company organized in the Philippines, as of December 31, 2007.

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

PPHI was incorporated in the Philippines on May 31, 2006 but has not yet started commercial operations. PPHI's primary purpose is to provide management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises.

The ultimate parent of the Group is Udenna Corporation, which was organized to purchase, acquire, take over and manage all or any parts of the rights, assets, business and property, undertake and assume all the liabilities of others; and to engage in the distribution, selling, importation, installation of pollution control devices, units and services, all other pollution control devices, units and services, and all other pollution control related products and emission test servicing.

In 2007, the Parent Company opened 13 additional service stations and it now has a total of 33 service stations operating as of December 31, 2007. As of December 31, 2007, there are 31 service stations under construction.

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

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

All the subsidiaries were organized and incorporated in the Philippines.

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

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

PGMI is currently engaged in the manufacture, production and creation of all kinds of motor, and all other transportation lubricants, fluids and additives of all kinds and other petroleum products purposely for motor vehicles and other transportation. PGMI was registered with the SEC on July 31, 2006 and started commercial operations on January 1, 2007.

PSC was created primarily to engage in providing hauling, trucking services, and other logistics services. PSC was registered with the SEC on January 31, 2007 and has not yet started commercial operations.

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

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

The financial statements of the Parent Company and Subsidiaries (the Group) for the year ended December 31, 2007 (including the comparatives for the years ended December 31, 2006 and 2005) were authorized for issue by the Group's President and Chief Executive Officer on April 9, 2008.

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. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of 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 (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

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

(b) Transition to PFRS in 2005

In compliance with the pronouncements of the FRSC and the regulations of the SEC, the Parent Company adopted all the relevant PFRSs for the first time in its financial statements for the year ended December 31, 2005, with January 1, 2004 as its transition date.

The transition from the previous generally accepted accounting principles in the Philippines to PFRS was made in accordance with PFRS 1, First-time Adoption of Philippine Financial Reporting Standards.

The Parent Company's adoption of these new and revised Philippine Accounting Standards (PASs) and PFRSs did not result in material adjustments to the financial statements of the current and prior years, except for the disclosure of additional information and details relating to certain accounts and transactions as required under the new accounting standards.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Group's functional currency, and all values represent absolute amounts except when otherwise indicated (see also Note 2.12).

(d) Reclassification of Accounts

Certain accounts in the 2006 and 2005 consolidated financial statements have been reclassified to conform to the 2007 financial statement presentation and classification.

2.2 Impact of New Standards, Amendments and Interpretations to Existing Standards

(a) Effective in 2007 that are Relevant to the Group

In 2007, the Group adopted for the first time the following new and amended PFRS which are mandatory for accounting periods beginning on or after January 1, 2007.

PAS 1 (Amendment)	:	Presentation of Financial Statements
PFRS 7	:	Financial Instruments: Disclosures
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 10	:	Interim Financial Reporting and Impairment

Discussed below are the impact on the consolidated financial statements of these new accounting standards.

(i) PAS 1 (Amendment), Presentation of Financial Statements. PAS 1 introduces new disclosures on the Group's capital management objectives, policies and procedures in each annual financial report. The amendments to PAS 1 were introduced to complement the adoption of PFRS 7. The new disclosures that became necessary due to this change in PAS 1 can be found on Note 24.

(ii) PFRS 7, Financial Instruments: Disclosures. PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, particularly:

- a sensitivity analysis, to explain the Group's market risk exposure with regard to its financial instruments; and,

- a maturity analysis that shows the remaining contractual maturities of financial liabilities.

PFRS 7 replaced PAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements in PAS 32, Financial Instruments: Disclosure and Presentation. All disclosures relating to financial instruments, including all comparative information, have been updated to reflect the new requirements. The new disclosures that became necessary due to the Group's adoption of PFRS 7 are presented in Note 23.

(iii) Philippine Interpretation IFRIC 10, Interim Financial Reporting and Impairment. This Philippine Interpretation prohibits the reversal through profit and loss at a subsequent balance sheet date of any impairment losses recognized on goodwill and financial assets carried at cost at an interim period.

The first time application of these standards, amendments and interpretations has not resulted in any prior period adjustments of cash flows, net income or balance sheet line items.

(b) Effective in and Subsequent to 2007 but not Relevant to the Group

2007

PFRS 4 (Amendment)	:	Insurance Contracts
Philippine Interpretation IFRIC 7	:	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyper Inflationary Economies
Philippine Interpretation IFRIC 8	:	Scope of PFRS 2
Philippine Interpretation IFRIC 9	:	Re-assessment of Embedded Derivatives

2008

Philippine Interpretation IFRIC 12	:	Service Concession Arrangements
Philippine Interpretation IFRIC 13	:	Customer Loyalty Programmes

2009

PAS 23 (Revised 2007)	:	Borrowing Costs

(c) Effective Subsequent to 2007 that are Relevant to the Group

There are new and amended standards and Philippine Interpretation that are effective for periods subsequent to 2007. The following new standards are relevant to the Group which the Group will apply in accordance with their transitional provisions.

2008

Philippine Interpretation IFRIC 14	:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

2009

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PFRS 8	:	Operating Segments

Below is a discussion of the possible impact of these accounting standards.

(i) Philippine Interpretation IFRIC 14, PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from January 1, 2008).

This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, Employee Benefits, on the amount of the surplus that can be recognized as an asset. It standardizes practice and ensures that entities recognize an asset in relation to a surplus on a consistent basis. The Group is currently evaluating the impact of this Interpretation on its consolidated financial statements and determined that adoption of this Philippine Interpretation will not materially affect its consolidated financial statements.

(ii) PAS 1 (Revised 2007), Presentation of Financial Statements (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Group will apply PAS 1 (Revised 2007) in its 2009 consolidated financial statements.

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

2.3 Basis of Consolidation

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

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

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

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

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

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

Goodwill (positive) represents the excess of acquisition cost over the Group's share in the fair value of the identifiable net assets of the acquired subsidiaries at the date of acquisition. Negative goodwill represents the excess of Parent Company's share in the fair value of identifiable net assets of the subsidiaries at date of acquisition over acquisition cost (see also Note 2.9).

In 2007, the Parent Company acquired 100% ownership in the following subsidiaries:

- Petroterminals Philippines, Corp.
- P-F-L Petroleum Management, Inc.
- Phoenix Global Mercantile, Inc.
- Petrologistix Services Corporation

2.4 Financial Assets

Financial assets include cash and other financial instruments. Financial assets are assigned to the different categories by management on initial recognition, depending on the characteristics of the instrument and the purpose for which it was acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards. The financial instruments category is relevant for the way it is measured and whether any resulting income and expense is recognized in profit or loss or directly in equity.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investment readily convertible to known amount of cash and which are subject to insignificant risk of changes in value.

All financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs.

Currently, the Group's financial assets are cash and cash equivalents and loans and receivables (presented as trade and other receivables, due from related parties and restricted deposits in the consolidated balance sheets).

Loans and receivables (presented as Trade and other receivables in the consolidated balance sheets) 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. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated cash flows.

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

2.5 Inventories

At the consolidated balance sheet date, inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing the inventory to its present location and condition is accounted at purchase cost on the basis of moving average method.

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

2.6 Property and Equipment

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

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

Buildings, depot and pier facilities	5-15 years
Gasoline station equipment	1-3 years
Office furniture and equipment	1-3 years
Hauling and heavy equipment	1-5 years
Other equipment	1-10 years

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.

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 the consolidated income statement in the year the item is derecognized.

2.7 Financial Liabilities

Financial liabilities include loans and borrowings, trade and other payables and due to related parties, which are measured at amortized cost using the effective interest method.

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as part of operating expense in the consolidated income statement.

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

Trade and other payables and due to related parties are initially recognized at their nominal value and subsequently measured at amortized cost less settlement payments.

Financial liabilities are derecognized from the consolidated balance sheet only when the obligations are extinguished either through discharge, cancellation or expiration.

2.8 Provisions

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the date of the consolidated balance sheet, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. 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. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each balance sheet date 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.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements.

2.9 Business Combinations

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

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost a business combination over the Group's interest in the net fair value of identifiabl assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.13) and is presented under Other non-current assets in the consolidated balance sheets (see Note 10).

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

2.10 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. 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. This is generally when the customer has taken undisputed delivery of goods.

(b) Fuel service and storage income – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered.

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

(d) Franchise income – Revenue is recognized when the performance of contractually agreed task has been substantially rendered. Franchise income is presented as part of Fuel service and storage income account in the consolidated income statement.

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding value-added tax (VAT) and trade discounts.

Cost and expenses are recognized in the consolidated income statement upon utilization of the service or at the date they are incurred. Finance costs are reported on an accrual basis.

2.11 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 consolidated balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are directly charged against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

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

2.12 Functional Currency

(a) Functional and Presentation Currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Philippine pesos, which is the Group's functional currency.

(b) Transactions and Balances

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 income statement.

2.13 Impairment of Non-financial Assets

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

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

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

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

2.14 Employee Benefits

Pension benefits are provided to employees through a defined benefit plan.

A defined benefit plan is a pension plan that defines an amount of pension 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 pension plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the consolidated balance sheet for defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is 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 pension liability.

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

2.15 Equity

Capital stock is determined using 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.

Treasury shares are stated at the cost of re-acquiring such shares.

Retained earnings include all current and prior period results as disclosed in the consolidated income statement.

2.16 Income Taxes

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 balance sheet date. 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 the consolidated income statement.

Deferred tax is provided, using the balance sheet liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or partof 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, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognized as a component of tax expense in the consolidated income statement.

2.17 Earnings per Share

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

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 circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical 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) Functional Currency

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

(b) Operating and Finance Leases

The Group has entered into various lease agreements as either a lessor or lessee. 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.

Rent expense charged to operations amounted to P6,915,184, P3,005,065 and P1,650,000 for the years ended December 31, 2007, 2006 and 2005, respectively (see Note 14).

Rent income earned for the years 2007 and 2006 amounted to P10,329,088 and P9,304,299, respectively. The Group has no rent income in 2005. Rent income is presented as part of the Fuel service and storage income in the consolidated income statements.

(c) 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 2.8 and relevant disclosure is presented in Note 22.

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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Useful Life of Property and Equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

Property and equipment net of accumulated depreciation and amortization amounted to P413.7 million and P93.4 million as of December 31, 2007 and 2006, respectively (see Note 9).

(b) Allowance for Impairment of Trade and Other Receivables

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

No provisions for impairment losses were recognized for the years ended December 31, 2007, 2006 and 2005.

(c) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at each balance sheet date 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 asset utilized.

Deferred tax asset (included as part of Other Non-current Assets) amounted to P4,813,793 as of December 31, 2007 (see Notes 10 and 18).

(d) Retirement Benefits and Other Retirement 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 15 and include, among others, discount rates, and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit obligation amounted to P1.8 million in 2007 and nil in 2006 (see Note 15.2).

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2007	2006
Cash on hand and in banks	**P 53,178,773**	P 15,842,339
Short-term placements	**61,000,000**	75,123,081
	P 114,178,773	P 90,965,420

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

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	2007	2006
Trade receivables	**P 265,548,927**	P 204,974,858
Other receivables	**95,100,690**	2,791,067
	P 360,649,617	P 207,765,925

All of the Group's trade and other receivables have been reviewed for indicators of impairment. There are no trade receivables found to be impaired as of December 31, 2007 and 2006.

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

	2007	2006
Not more than one month	**P 54,279,726**	P 55,687,304
More than one month but not more than two months	**20,243,220**	1,949,128
More than two months but not more than four months	**33,559,948**	5,435,151
	P 108,082,894	P 63,071,583

Trade receivables are usually due within 30 to 60 days and do not bear any interest. All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognized resemble a large number of receivables from various customers.

The carrying amounts of these short-term financial assets are reasonable approximation of their fair values.

6. INVENTORIES

This account consists of:

	2007	2006
Fuel	**P 146,222,710**	P 43,542,512
Lubricants	**31,836,849**	-
	P 178,059,559	P 43,542,512

Under the terms of agreements covering the liabilities under trust receipts, certain inventories have been released to the Group in trust for the bank. The Group is accountable to the bank for the trusteed inventories or their sales proceeds (see Note 11).

7. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various banking facilities covered by hold-out agreements. As such, these are restricted as to withdrawals. Banking facilities availed by the Group are used for the purpose of purchasing fuel and lubricant supplies from their sources.

8. OTHER CURRENT ASSETS

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

	2007	2006
Net input VAT	**P 23,084,399**	P 400,388
Prepayments	**4,569,166**	107,821
Creditable withholding tax	**738,103**	649,463
Cash advances subject for liquidation	**414,628**	-
Others	**616,179**	-
	P 29,422,475	P 1,157,672

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2007 and 2006 are shown below:

	Buildings, Depot and Pier Facilities	**Leasehold and Land Improvements**	**Gasoline Station Equipment**	**Office Furniture and Equipment**	**Hauling and Heavy Equipment**	**Other Equipment**	**Land**	**Construction in Progress**	**Total**
December 31, 2007,									
Cost	P 51,041,187	P 17,726,959	P 62,402,292	P 38,398,442	P 57,914,015	P 28,231,061	P 134,853,747	P85,764,364	P 476,332,067
Accumulated depreciation and amortization	(12,786,672)	(3,962,832)	(17,199,262)	(12,310,693)	(12,017,482)	(4,351,731)	-	-	(62,628,672)
Net carrying amount	**P 38,254,515**	**P 13,764,127**	**P 45,203,030**	**P 26,087,749**	**P 45,896,533**	**P 23,879,330**	**P 134,853,747**	**P85,764,364**	**P 413,703,395**
December 31, 2006,									
Cost	P 35,312,907	P 9,324,129	P 32,589,976	P 20,340,236	P 21,216,052	P 4,475,187	-	-	P 123,258,487
Accumulated depreciation and amortization	(8,813,335)	(1,624,841)	(5,584,254)	(5,206,885)	(6,562,475)	(2,096,338)	-	-	(29,888,128)
Net carrying amount	P 26,499,572	P 7,699,288	P 27,005,722	P 15,133,351	P 14,653,577	P 2,378,849	-	-	P 93,370,359
January 1, 2006,									
Cost	P 34,543,232	P 4,981,874	P 9,246,631	P 7,565,682	P 14,242,341	P 3,723,508	-	-	P 74,303,268
Accumulated depreciation and amortization	(4,691,071)	(906,051)	(1,025,086)	(1,990,734)	(3,784,930)	(1,219,857)	-	-	(13,617,729)
Net carying amount	P 29,852,161	P 4,075,823	P 8,221,545	P 5,574,948	P 10,457,411	P 2,503,651	-	-	P 60,685,539

A reconciliation of the carrying amounts at the beginning and end of 2007 and 2006 of property and equipment is shown below:

	Buildings, Depot and Pier Facilities	Leasehold and Land Improvements	Gasoline Station Equipment	Office Furniture and Equipment	Hauling and Heavy Equipment	Other Equipment	Land	Construction in Progress	Total
Balance at January 1, 2007,									
net of accumulated depreciation and amortization	P 26,499,572	P 7,699,288	P 27,005,722	P 15,133,351	P 14,653,577	P 2,378,849	P -	P -	P 93,370,359
Additions	15,728,280	8,402,830	29,812,316	18,058,206	36,697,963	23,755,874	134,853,747	85,764,364	353,073,580
Depreciation charged for the year	(3,973,337)	(2,337,991)	(11,615,008)	(7,103,808)	(5,455,007)	(2,255,393)	-	-	(32,740,544)
Balance at December 31, 2007									
net of accumulated depreciation and amortization	**P 38,254,515**	**P 13,764,127**	**P 45,203,030**	**P 26,087,749**	**P 45,896,533**	**P 23,879,330**	**P 134,853,747**	**P 85,764,364**	**P 413,703,395**
Balance at January 1, 2006, net of accumulated depreciation and amortization	P 29,852,161	P 4,075,823	P 8,221,545	P 5,574,948	P 10,457,411	P 2,503,651	P -	P -	P 60,685,539
Additions	769,675	4,489,287	23,343,345	16,965,075	6,973,711	751,679	-	-	53,292,772
Adjustments	-	(147,032)	-	(4,190,521)	-	-	-	-	(4,337,553)
Depreciation charged for the year	(4,122,264)	(718,790)	(4,559,168)	(3,216,151)	(2,777,545)	(876,481)	-	-	(16,270,399)
Balance at December 31, 2006 net of accumulated depreciation and amortization	P 26,499,572	P 7,699,288	P 27,005,722	P 15,133,351	P 14,653,577	P 2,378,849	P -	P -	P 93,370,359

Certain properties are mortgaged with local banks (see Note 11).

10. OTHER NON-CURRENT ASSETS

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

	Note	2007	2006
Goodwill		**P 9,344,134**	P -
Deferred tax assets	18	**4,813,793**	-
Others		**1,681,866**	922,918
		P 15,839,793	P 922,918

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

11. LOANS AND BORROWINGS

This account consists of the following as of December 31:

	2007	2006
Current:		
Liabilities under trust receipts and letters of credits	P 329,652,673	P 140,348,495
Installment payable	30,536,933	-
Mortgage payable	2,415,793	3,334,918
	P 362,605,399	P 143,683,413
Non-current:		
Installment payable	P 84,206,965	P -
Mortgage payable	3,675,334	1,316,443
	P 87,882,299	P 1,316,443

11.1 Liabilities Under Letters of Credits and Trust Receipts

The Group avails of letter of credit and trust receipt lines with local banks to finance its purchases of inventories. These short-term trust receipts bear interests based in prevailing market interest rates at an average of 8.25%. Interest expense for 2007 and 2006 amounted to P6,246,974 and P3,021,158, respectively, and were presented as part of operating expenses in the consolidated income statements (see Note 14).

The Group is required by the banks to maintain certain collaterals for the credit line facility provided to the Group for working capital requirement. The collateral is in the form of compensating deposits and properties of a related party and a stockholder.

The carrying values of Liabilities under letters of credits and trusts receipts recognized in the consolidate-balance sheets are reasonable approximation of their fair values.

11.2 Installment Payable

The installment payable represents liability to Bacnotan Industrial Park Corporation (BIPC) and a certain individual arising from the acquisition of land (see Note 9). The following are the provisions indicated in the contract to sell entered by the Group and BIPC:

(a) The installment payable shall earn an interest of 9% per annum and are payable monthly until March 1, 2012.

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

(c) The Deed of Absolute Sale shall be executed and ownership of the land shall be transferred to the Group only upon full payment of installments payable.

The installment payable to a certain individual is payable monthly until March 2009.

11.3 Mortgage Payable

The mortgage payable represents secured loans which bear interest rates ranging from 7.6% to 11.4% per annum, and with terms ranging from 18 months to 24 months. The mortgages are secured by certain service vehicles of the Group, presented as part of Office Furniture and Equipment (see Note 9).

12. TRADE AND OTHER PAYABLES

This account consists of:

	Note	**2007**	2006
Trade payables		**P 142,647,397**	P 161,580,737
Accrued expenses		**19,248,131**	1,948,984
Others	15	**13,239,315**	5,226,372
		P 175,134,843	P 168,756,093

Due to the short duration of trade and other payables, management considers the carrying amounts recognized in the consolidated balance sheets to be a reasonable approximation of their fair values.

13. COST OF SALES

This account is composed of the following:

	2007	2006	2005
Inventory at beginning of year	**P 43,542,512**	P 40,927,546	P 5,806,586
Net purchases during the year	**2,231,954,622**	1,332,932,409	678,131,917
Goods available for sale	**2,275,497,134**	1,373,859,955	683,938,503
Inventory at end of year	**(178,059,559)**	(43,542,512)	(40,927,546)
	P 2,097,437,575	P 1,330,317,443	P 643,010,957

14. OPERATING EXPENSES BY NATURE

The details of selling and administrative expenses by nature are shown below:

	Notes	**2007**	2006	2005
Cost of sales:				
Fuels		**P 2,051,253,972**	P 1,330,317,443	P 643,010,957
Lubricants		**46,183,603**	-	-
Salaries and employees' benefits	15	**43,898,747**	15,895,572	5,019,075
Depreciation and amortization	9	**32,740,544**	16,270,399	8,496,604
Fuel, oil and lubricants		**8,387,492**	5,693,008	1,232,898
Ads and promo		**8,255,498**	6,970,022	1,050,204
Taxes and licenses		**7,412,244**	4,146,791	281,857
Office supplies		**7,193,268**	2,066,814	822,359
Rent		**6,915,184**	3,005,065	1,650,000
Utilities		**6,350,572**	1,797,820	1,133,358
Interest	11	**6,246,974**	3,021,158	1,596,698
Travel and transportation		**5,720,417**	2,580,270	1,300,836
Repairs and maintenance		**5,320,096**	10,652,681	1,217,596
Professional fees		**4,038,325**	2,880,189	-
Representation		**3,512,357**	3,546,070	2,415,013
Outside services		**2,902,195**	-	-
Service fee		**2,800,000**	-	-
Bank charges		**2,454,228**	2,547,400	915,875
Trucking charges		**2,278,463**	3,580,251	1,190,447
Insurance		**2,091,100**	1,075,309	1,065,668
Security fees		**1,908,075**	1,074,292	-
Miscellaneous		**4,806,920**	2,300,559	1,919,741
		P 2,262,670,274	P 1,419,421,113	P 674,319,186

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

	2007	2006	2005
Cost of sales	**P 2,097,437,575**	P 1,330,317,443	P 643,010,957
Selling and administrative expenses	**165,232,699**	89,103,670	31,308,229
	P 2,262,670,274	P 1,419,421,113	P 674,319,186

15. RETIREMENT BENEFIT OBLIGATION

15.1 Employee Benefits

Expenses recognized for employee benefits (see Note 14) are presented below:

	2007	2006	2005
Salaries and wages	**P 32,056,842**	P 10,997,855	P 3,860,756
13th month pay and bonuses	**4,769,613**	3,038,403	461,078
Employee welfare	**7,072,292**	1,859,314	697,241
and other benefits	**P 43,898,747**	P 15,895,572	P 5,019,075

15.2 Employee Retirement Benefit Obligation

The Group has an unfunded defined benefit pension plan covering all qualifying employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. The present value of the obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The amount of retirement benefit obligation, which is presented as part of Trade and Other Payables (see Note 12), recognized in the consolidated balance sheet as of December 31, 2007 follows:

Present value of obligation	P 2,799,612
Unrecognized actuarial losses	985,862
	P 1,813,750

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

Current service cost	P 1,781,175
Interest cost	32,575
Balance at end of year	P 1,813,750

The amount of retirement benefits expense recognized in the 2007 consolidated income statements follows:

Current service cost	P 1,781,175
Interest cost	32,575
Balance at end of year	P 1,813,750

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

Discount rate	8.32%
Expected rate of salary increase	5%

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

16. REGISTRATION WITH THE BOARD OF INVESTMENTS (BOI)

The Parent Company was registered with the BOI on November 16, 2005 as new industry participant with new investment in storage, marketing and distribution of petroleum products under Republic Act (RA) 8479 (Downstream Oil Industry Deregulation Act). Under its registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

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

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

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

(c) Minimum duty of three percent and value added tax on imported capital equipment;

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

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

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

17. REGISTRATION WITH DAVAO CITY INVESTMENT INCENTIVE CODE OF 1994

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

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

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

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

18. TAXES

The major components of tax expense for the years ended December 31, 2007 and 2005 are as follows:

	2007	2005
Current tax expense:		
Final tax (at 20%)	**(P 1,682)**	(P 102,309)
Regular corporate income tax (RCIT) (at 35% and 32%)	**-**	(1,594,376)
	(1,682)	(1,696,685)
Deferred tax income (expense):		
Deferred tax relating to net operating loss carryover (NOLCO)	**4,351,788**	-
	P 4,350,106	(P 1,696,685)

The reconciliation of the tax on pretax income computed at the applicable statutory rates to tax expense attributable to continuing operations is as follows:

	2007	2005
Tax on pretax loss (income)		
At 35%	**P 4,348,844**	(P 316,010)
At 32%	**-**	(1,444,618)
Adjustments for income subjected to lower income tax rate	**1,262**	63,943
Tax income (expense) reported in the consolidated income statements	**P 4,350,106**	(P 1,696,685)

The tax income for the year 2007 pertains to the subsidiaries. The tax expense covers the taxable income of the Parent Company for the year 2005. The Parent Company only availed the income tax holiday under its registration with the BOI (see Note 16) starting on January 1, 2006.

Deferred tax asset pertains to the NOLCO of the subsidiaries.

19. RELATED PARTY TRANSACTIONS

The Group's related parties include the ultimate parent company, stockholders, the Group's key management and others as described below.

The following are the transactions with related parties:

19.1 Rentals

The Group has an operating lease agreement with Udenna Corporation, the ultimate parent company. Total rent expense incurred during the years 2007 and 2006 amounted to P2.8 million and P2.1 million, respectively. Minimum future lease payments under operating lease with the related party amounted to P3,139,988 in 2008 and P3,453,987 in 2009.

19.2 Due to and Due from Related Parties

The Group grants advances with other related parties for working capital purposes. The advances are non-interest bearing and repayable within 12 months.

The breakdown of due from related parties as of December 31, 2007 and 2006 is as follows:

	2007	2006
Advances to PPHI:		
Balance at beginning of year	**P 14,347,683**	P -
Additions	**114,989,652**	99,247,072
Collections	**(106,838,871)**	(84,899,389)
Balance at end of year	**P 22,498,464**	P 14,347,683
Advances to other related parties:		
Balance at beginning of year	**P 41,386,680**	P -
Additions	**48,920,206**	55,954,885
Collections	**(77,206,275)**	(14,568,205)
Balance at end of year	**P 13,100,611**	P 41,386,680
Total due from related parties:		
Balance at beginning of year	**P 55,734,363**	P -
Additions	**163,909,859**	155,201,957
Collections	**(184,045,146)**	(99,467,594)
Balance at end of year	**P 35,599,076**	P 55,734,363

The breakdown of due to related parties is as follows:

Advances from related parties:		
Balance at beginning of year	P 140,200	P 19,375,255
Repayments	(140,200)	(P 19,375,255)
Additions	-	140,200
Balance at end of year	P -	P 140,200

19.3 Key Management Compensation

The compensation of key management personnel is broken down as follows:

	2007	2006	2005
Salaries and wages	**P 18,439,923**	P 4,888,369	P 845,888
Honoraria and allowances	**570,689**	1,692,500	550,000
13th month pay and bonuses	**2,576,032**	285,827	77,250
	P 21,586,644	P 6,866,696	P 1,473,138

20. EQUITY

20.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2007	2006	2005	**2007**	2006	2005
Common shares – P1 par value						
Authorized:						
Balance at beginning of year	**400,000,000**	10,000,000	10,000,000	**P400,000,000**	P 10,000,000	P 2,500,000
Increase during the year	**-**	390,000,000	-	**-**	390,000,000	7,500,000
Balance at end of year	**400,000,000**	400,000,000	10,000,000	**P 400,000,000**	P 400,000,000	P 10,000,000
Issued:						
Balance at beginning of year	**116,000,000**	10,000,000	2,500,000	**P 116,000,000**	P 10,000,000	P 2,500,000
Issued during the year	**29,000,000**	106,000,000	7,500,000	**29,000,000**	106,000,000	7,500,000
Balance at end of year	**145,000,000**	116,000,000	10,000,000	**P 145,000,000**	P 116,000,000	P 10,000,000

20.2 Increase in Authorized Capital Stock

In 2006, the SEC approved the Parent Company's application for the increase in authorized capital stock as follows:

(a) On June 12, 2006, the Parent Company's authorized capital stock was increased from P10,000,000 divided into 10,000,000 shares with par value of P1 per share to P50,000,000 divided into 50,000,000 shares with par value of P1 per share;

(b) On August 7, 2006, the Parent Company's authorized capital stock was increased from P50,000,000 divided into 50,000,000 shares with par value of P1 per share to P100,000,000 divided into 100,000,000 shares with par value of P1 per share;

(c) On December 29, 2006, the Parent Company's authorized capital stock was increased from P100,000,000 divided into 100,000,000 shares with par value of P1 per share to P400,000,000 divided in to 400,000,000 shares with par value of P1 per share.

20.3 Additional Paid-in Capital

In 2007, the Parent Company listed its shares of stock with the PSE. Premiums received in excess of the par value during the public offering amounting to P227,114,249 were recorded under Additional Paid-in Capital in the 2007 consolidated balance sheet.

20.4 Treasury Shares

Treasury shares represent 795,000 shares of the Parent Company which were subsequently reacquired at various dates from October 2007 to December 31, 2007. The equivalent acquisition cost amounted to P5,639,300.

20.5 Deposits on Future Stock Subscriptions

In 2006, the deposits on future stock subscriptions of P10.0 million were converted to common stocks by the same amount.

21. EARNINGS PER SHARE

Earnings per share were computed as follows:

	2007	2006	2005
Net income	**P 122,358,766**	P 74,262,058	P 3,720,632
Divided by weighted average number of outstanding common shares	**129,231,289**	23,979,167	10,000,000
Earnings per share	**P 0.94**	P 3.10	P 0.37

The Parent Company does not have dilutive shares as of December 31, 2007, 2006 and 2005. Accordingly no diluted earnings per share was computed by the Company.

22. COMMITMENTS AND CONTINGENCIES

22.1 Capital Commitments

As of December 31, 2007, the Parent Company has commitments of more than P200.0 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 Parent Company has a network of 33 opened retail service stations as of December 31, 2007. An additional of 31 other retail service stations were under various stages of completion as of end December 2007.

In 2008, the Parent Company plans to expand further its petroleum retail service station and carry out its expansion plan to put up depot and terminalling facilities in strategic locations, complete its chain of logistical support to strengthen its foothold in the industry.

22.2 Letters of Credits

As of December 31, 2007 and 2006, the Group has unused letters of credit amounting to P317.0 million and P140.0 million respectively.

22.3 Others

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

23. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which results from its operating activities. The Group's risk management is coordinated with PPHI and its ultimate parent Company, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short to medium term cash flows by minimizing the exposure to financial markets.

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

23.1 Foreign Currency Risk

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

23.2 Interest Rate Risk

The Group has no significant exposure to interest rate risk as the Group's borrowings are generally short term and have fixed interest rates.

23.3 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 balance sheets (or in the detailed analysis provided in the notes to the financial statements) as summarized below:

	Notes	**2007**	2006
Cash and cash equivalents	4	**P 111,771,621**	P 90,011,583
Trade and other receivables	5	**360,649,617**	207,765,925
Due from related parties	19	**35,599,076**	55,734,363
Restricted deposits	7	**44,751,820**	14,185,232
Others		**1,681,866**	922,918
		P 554,454,000	P 367,790,021

As part of the Group policy, bank deposits are only maintained with reputable financial institution. For the determination of credit risk, cash do not include cash on hand and cash in bank amounting to P407,818 and P1,999,334 in 2007 and P203,837 and P750,000 in 2006. The amount excluded in the cash in bank represents the aggregate of maximum insurance in seven depository banks of the Company of P250,000 each, as provided for under Republic Act (RA) No. 9302, Charter of Philippine Deposit Insurance Corporation.

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

As of December 31, 2007 and 2006, all the financial assets are neither past due nor specifically impaired.

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 are generally secured with postdated checks.

23.4 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 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, 2007, the Group's liabilities have contractual liabilities which are summarized as follows:

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 3 years
Loans and borrowings	P 347,139,362	P 15,466,037	P 100,690,158
Trade and other payables	175,134,843	-	-
	P 522,274,205	P 15,466,037	P 100,690,158

This compares to the maturity of the Group's financial liabilities as of December 31, 2006, as follows:

	Current	Non-Current
	Within 6 months	1-3 years
Loans and borrowings	P 143,683,413	P 1,316,443
Trade and other payables	168,756,093	-
Due to related parties	140,200	-
	P 312,579,706	P 1,316,443

The contractual maturities presented above reflect the gross cash flows, which may differ to the carrying values of the liabilities at the consolidated balance sheet date.

24. CAPITAL MANAGEMENT OBJECTIVE, 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 balance sheet. Capital for the reporting periods under review is summarized as follows:

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.

	2007	2006
Total liabilities	**P 625,622,541**	P 313,896,149
Total equity	**566,581,967**	193,748,252
Debt-to-equity ratio	**1.10:1**	1.62:1

PHOENIX CORPORATE HYMN

When the Phoenix flies
To conquer the sky
It goes beyond,
Towards greater heights

Then we make a dream
Though impossible it seems
We smile because we know
We can make it all come true
When the Phoenix flies
so does our hearts

We will fly so high
Just like the Phoenix in the sky
We will reach the stars
Most have given up while trying
This is what sets us apart
From everybody else
The firebird that's burning in our hearts

I believe we'll make it all against the odds
Be in the pinnacle
I believe that we will go straight to the top
I know

We smile because we know
We can make it all come true
So when the Phoenix flies
so does our hearts

We will fly so high
Just like the Phoenix in the sky
We will reach the stars
Most have given up while trying
This is what sets us apart
From everybody else
The firebird that's burning in our hearts
The firebird that's burning

We smile because we know
We can make it all come true
So when the Phoenix flies
so does our hearts

CORPORATE OFFICES

Head Office:
Phoenix Bulk Depot,
Lanang, Davao City 8000
Philippines
Tel: +63 (82) 235-8878
Fax: +63 (82) 233-0168

Manila Office:
7/F ACT Tower,
135 Sen. Gil Puyat Ave.,
Salcedo Village,
Makati City 1227 Philippines
Tel: +63 (02) 894-4592
Fax: +63 (02)750-1686

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

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

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

SHAREHOLDER SERVICES

Banco de Oro
Stock Transfer Office
16F BDO South Tower Bldg.
Makati Ave. corner H.V. Dela Costa St.
Salcedo Village, Makati City
1227 Philippines

Tel: +63 (02) 840-7000 local 6975 to 6979

STOCK TRADING INFORMATION

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


PHOENIX
Fuels Life
60
and growing...