

PHOENIX
ANNUAL
REPORT

20
08

PHOENIX PETROLEUM PHILIPPINES, INC. ANNUAL REPORT 2008

PURSUING
UNLIMITED
POTENTIAL

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ABOUT PHOENIX PETROLEUM PHILIPPINES, INC.

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

Its operations are divided between Trading and Terminating and Hauling Services. Under Trading, PNx offers its refined petroleum products and lubricants to retailers and industrial customers. PNx sells its products through a growing network of retail service stations nationwide.

The company's Terminating and Hauling Services involve leasing of storage space in its terminal depot, hauling and into-plane services in the cities of Davao, Cagayan de Oro, Zamboanga, General Santos, and Cotabato.

PNx was incorporated in the Philippines in 2002. It started operations in its current form in 2004 under the name Davao Oil Terminal Services Corporation (DOTSCO). In 2007, the company was renamed from DOTSCO to P-H-O-E-N-X Petroleum Philippines, Inc. In July 11, 2007, Phoenix Petroleum, under the symbol PNx, launched its initial public offering, becoming the first independent oil company to be listed in the Philippine Stock Exchange after the passage of the 1998 Oil Deregulation Law.



COVER RATIONALE

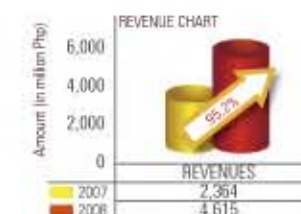
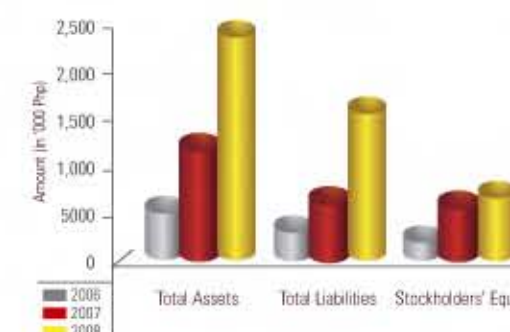
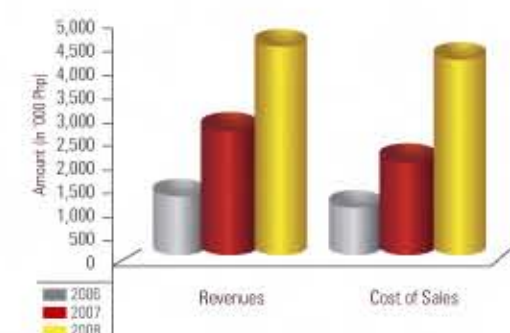
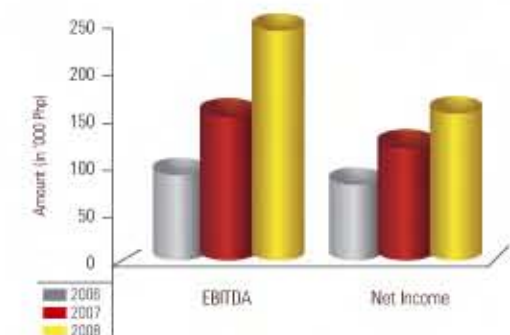
In a burst of intense power, the iconic bird embraces a Phoenix Station, sweeping through a background of fiery colors that speak of passion, dedication and advancement: The Myth and the Company finally forge an indomitable blend of ideals, breaking records as they seek out new frontiers.

2008 FINANCIAL HIGHLIGHTS

As of and for the years ended December 31			
(All Amounts Expressed in thousand, unless otherwise stated)	2008	2007	2006
INCOME STATEMENT DATA:			
Revenues	4,615,217	2,364,232	1,493,683
Cost of Sales	4,194,196	2,097,438	1,330,317
EBITDA	249,309	156,996	93,554
Net Income	150,289	122,359	74,262
BALANCE SHEET DATA:			
Current Asset	1,457,228	762,661	413,351
Non-current Asset	910,853	429,543	94,293
Total Assets	2,368,081	1,192,205	507,644
Total Liabilities	1,677,323	625,623	313,896
Stockholders' Equity	690,758	566,582	193,748
CASH FLOW			
Net Cash Flow from Operating Activities	334,281	(201,146)	41,785
Net Cash Provided by (Used in) Investing Activities	(489,589)	(216,176)	(95,450)
Net Cash Provided by (Used in) Financing Activities	398,526	440,535	118,839
CONSOLIDATED PROJECT AND CAPITAL EXPENDITURES	526,444	238,330	40,217
FINANCIAL RATIOS			
Current Ratio ¹	0.92 : 1	1.43 : 1	1.32 : 1
Debt to Equity ²	2.43 : 1	1.1 : 1	1.62 : 1
Return on Equity ³	24%	32%	68%
Return on Assets ⁴	8%	14%	22%
Return on Sales	3.24%	5.15%	4.97%
STOCK INFORMATION			
No of Shares Outstanding (in '000)-net of Treasury Shares	184,151	144,205	116,000
Market Capitalization-Year End (in '000)	681,359	1,023,856	N/A
Stock Price-Closing (Year End)	3.70	7.10	N/A
Net Book Value Per Share ⁵	3.75	3.93	1.67
Earnings Per Share ⁶	0.91	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



2008 STOCK PRICE PERFORMANCE

	2008	2007
Year-end close	3.70	7.00
Year high	7.00	14.75
Year low	1.80	6.40

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.

INNOVATION

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

TEAMWORK

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

STEWARDSHIP

We nurture our resources responsibly.

"The positive operating and financial performance of Phoenix despite a difficult industry situation in 2008 exemplifies teamwork. We continue to develop teamwork by making sure that our people understand the vision of the company. Alone we can do so little; together we can do so much."

- Nick Dy, General Manager for Mindanao

2008 HIGHLIGHTS

FEBRUARY 1, 2008

PNX received ISO 9001:2000 certification for its receiving, storage, and distribution of petroleum fuels and plane refueling services at its bulk depot in Lanang, Davao City

MAY 3

Opened 50th station in Acacia St., Davao City

JULY 27

Phoenix JetA1 facility in New Washington, Aklan began delivery to Cebu Pacific Air

OCTOBER

Launched national brand campaign, "Bold Energy" with Phoenix Maiden Marian Rivera and boxing hero Manny Pacquiao symbolizing the passion and drive of Phoenix

OCTOBER 10

Opened Marikina station, the first in Luzon and the Company's 75th

OCTOBER 14

PNX signed P750-million Omnibus Term Credit Facility from a syndicate of banks. Proceeds will be used to partially finance PNX's capital expenditure requirements.

DECEMBER 27

Completion of Davao depot expansion, doubling capacity to 13.4 million liters

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TO OUR SHAREHOLDERS

2008 was a tumultuous year for the oil industry. The price of oil began to climb in the first quarter, rising to an all-time high of \$147.27 a barrel in mid-July. In the Philippines, diesel sold for a high of almost P60 a liter and unleaded gasoline above P60 a liter.

As the global financial crisis imploded, demand for oil dropped and oil prices steadily plunged. At the end of 2008, oil prices were above \$44 a barrel. Philippine oil companies rolled back prices to almost half of what they were at peak.

Amidst these challenges, Phoenix Petroleum Philippines, Inc. managed to grow. In 2008, we posted a net income of P150 million, a 23 percent increase from P122 million in 2007. This, despite a squeeze

in gross margins due to increased purchase costs of petroleum products and unequal movement of pump prices and purchase cost.

Our revenue grew 95.21 percent to P4.615 billion from last year's P2.376 billion. Growth came from significant increases in sales volume of petroleum products and increase in revenues from fuels service and storage.

Weathering the rough seas of 2008, we emerged stronger, more resilient, and more confident. We kept our focus on the fundamentals: fiscal discipline, operational excellence, and supply reliability as we continued to expand the business to deliver more value to our customers, business partners, and shareholders.

GROWTH

We entered 2008 with 33 stations and closed the year with 86 stations, an increase of 53. Three of those stations were in Luzon, a first for PNX. In Davao, we maintained our position as the fourth major player in terms of number of stations, increasing our market share from 11 percent to 23 percent. In Mindanao, we doubled our market share from 5 percent to 11 percent in 2008 with 83 stations.

The increase in our retail outlets and lubes distribution network significantly grew our volume sales of refined products by 66 percent and lubricants by 150 percent. Volume sales from storage services increased by 17 percent and into-plane services by 15 percent.

With the rise in number of retail stations and commercial accounts, we expanded our fleet and increased volume capacity.

We acquired an additional 14 bridger trucks, refuelers, and tankers for commercial fuels to deliver supplies in Davao, Zamboanga, General Santos, Cotabato and Cagayan de Oro. Our trucks now number 34.

We ended the year with greater volume capacity. Our new JetA1 storage facility in New Washington, Aklan now serves the popular Boracay route. Our Davao depot completed its expansion in December, doubling its storage capacity to 13.4 million liters.

In October we signed a P750-million Omnibus Term Credit Facility from a syndicate of banks including Security Bank Corporation, Land Bank of the Philippines, and Robinsons Savings Bank. SB Capital Investment Corporation was the mandated Arranger for the transaction. Proceeds from the facility will be used to partially finance our capital expenditure requirements for the construction of our depot and logistic facilities and support the company's working capital requirements.

DIVIDENDS

In August 2008, PNx distributed a 30% stock dividend for stockholders of record as of July 11, 2008 issued from the Company's unrestricted retained earnings. This was approved by the Board of Directors in May 2008 and ratified by stockholders in June. The number of shares issued was 43,000,198 valued at Par Value of Php 1.00 per share or Php 43,000,198.00.

The issuance of the stock dividends increased the paid-up capital of PNx from P145 million to P188 million.

A cash dividend of Php 0.10/share was declared for all stockholders on record as of May 30, 2008. The distribution, dated June 26, amounted to P14.5 million.

BOLD ENERGY

The enthusiasm in our business is exemplified by our business partners, who have seen their business grow, and by our employees, who have received trainings and opportunities from us. We continue to invest in people as we expand. In 2008, we opened sales offices in Cebu, Cagayan de Oro, and General Santos, aside from those in Davao City and Makati City.

In late 2008 we launched a national brand campaign that encapsulates the passion and drive of Phoenix: Bold Energy. We launched as the Phoenix Maiden one of the country's most popular young actresses, Marian Rivera. We also signed up national boxing hero Manny Pacquiao to be the face of the company, and more significantly, a business partner. Pacquiao opened his own Phoenix station in his hometown of General Santos City in February 2009.

Start of 2008:	P7
Dividend adjusted:	P5.38
End of 2008:	P3.70
Total volume traded in 2008:	13,677,700 shares
Outstanding and issued shares:	184,151,000 shares

WE ARE CONFIDENT BECAUSE WE HAVE A GROWING BRAND AND A NIMBLE BUSINESS MODEL.

MOVING FORWARD

PNx will continue to strengthen the business by maximizing our strengths, flexibility, and capacity to realize bold ideas.

We envision more Phoenix retail stations across the country. We will finish construction of our 45-million-liter storage depot and terminal facility in BUIP, Calaca, Batangas in early 2009. We will construct more depots as we expand our retail network. We will continue investing on our people, operations, and brand as we aim to increase our dealerships and widen our distribution network. As we have done every year, we will hold and support more community programs as we live up to our core value of stewardship.

Amidst these challenging times, there is much to look forward to. We remain positive of our prospects in 2009 and will keep on growing the business as we look at long-term priorities. We are one of the top 500 corporations in the Philippines, improving our ranking from 570 in 2006 to 473 in 2007.

We are confident because we have a growing brand and a nimble business model. The Company, employees, and business partners share the passion to achieve our common goals.

We are determined because of the faith and support of you, our shareholders. Your trust in our ability to succeed motivates us to work harder. With your continued support and confidence, together we will make the Phoenix soar higher.

Sincerely,

Domingo T. Uy
Chairman

Dennis A. Uy
President/CEO



THE POWER TO PURSUE UNLIMITED POTENTIAL

As a homegrown independent oil company, we constantly find ways to strengthen the company and fuel our growth. Our healthy performance in 2008 derives from five areas of focus: place, products, logistics, people, and brand. As we look ahead to 2009, we will continue to improve on these keys as we pursue unlimited potential.

PLACE

Place is more than just a location. It is helping communities by giving opportunities to its people. In places far and wide, a gas station is the first sign of economic life. Phoenix Petroleum retail stations fuel the growth of each community and our business partners. Our places are safe, clean, and convenient.



"Our growth has been driven by the trust and support of our dealers, distributors, and clients. We treat them as valued partners in the business. Their success is our success; our success is their success."

- Edgar Alerta
Assistant Vice President for Sales -Mindanao



Opening of Marikina station with Phoenix Maiden Marian Rivera

RETAIL STATION GROWTH

By the end of 2008, Phoenix Petroleum retail stations grew to 86, more than double our number of stations from 2007. Of these, 83 are in Mindanao, where we served new areas such as Sarangani, General Santos City, and Upi, Maguindanao. In October, we opened our Marikina station, the first in Luzon and in Metro Manila. By yearend, two more Luzon stations opened – in Zambales and Cabanatuan.

SERVING NEW MARKETS

We presently service the fuel requirements of various accounts in Southern Mindanao, from the airline, mining, shipping, tourism, transportation, banana, and sugar industries.

Aside from these, in 2008 we began supplying the fuel requirements of US military aircrafts in all airports in Mindanao.

We also started refueling Cebu Pacific aircrafts for flights in Zamboanga.

Moreover, under an agreement with the Philippine National Police Service Store Systems (PNPSSS) signed in November, we will build 16 Phoenix fuel stations at PNPSSS locations nationwide by end of 2009. The flagship Phoenix-PNPSSS station will be at Fort Bonifacio in Taguig that will open by June 2009. PNPSSS operates under the administrative management of PNP with the purpose of providing common household and other merchandise to PNP personnel and other dependents at affordable and competitive prices.



Signing of 3-year fuel supply agreement by PNK to SUMIFRU (Phila) Corporation, December in Davao City. General Manager of SUMIFRU Hector E. Rivera and PNK President and CEO Dennis Uy shake hands after signing. (L-R) Nilo Consular, PNK Customer Relations Officer of Commercial and Industrial Accounts; Edgar Alerta, PNK AVP Sales-Mindanao; Victor S. Mercado Jr., Head of Procurement and Supply Management Group of SUMIFRU (Phila) Corporation; Ian Philippe W. Cuyegkong, Operations & Logistics Manager of SUMIFRU; Alberto Alcid, PNK AVP-Lubes and Chemicals; and Chad Bacasmot, PNK Lubes CRO.

Phoenix Petroleum supplies fuel to the US Air Force in Cotabato



PNK and PNPSSS contract-signing at Camp Crame, Quezon City in November. L-R: PNK Vice President Jose Manuel Quimson, President and CEO Dennis Uy, PNPSSS Administrator Jose Antonio Salvacion, and PNPSSS Assistant Administrator and OIC, Operations Department retired PSSupt Nicanor Casclang

PRODUCTS

Phoenix Petroleum provides quality products at competitive prices. Our line today consists of petroleum, lubricants, and car care products. We plan to further expand our product line in innovative ways.



REFINED PRODUCTS

Overall sales of our refined products increased 66 percent in 2008. Sales of diesel, motor gasoline, and kerosene recorded significant growth. Special Fuel Oil (SFO) and Jet-A1 decreased slightly as an effect of high oil prices. In compliance with the Biofuels Act, we began introducing E10, a blend of 10 percent ethanol and 90 percent gasoline.

LUBRICANTS AND CAR CARE

Our lubes business grew 150 percent in 2008 as we widened our distribution network, improved product quality, and enhanced supply and logistics. Phoenix Lubricants are sold in stations, auto shops, and commercial and industrial companies and plants nationwide. In 2009 we will launch more lubricant and car care products.



LOGISTICS

Providing the backbone of retail operations is our logistics management. It means ensuring reliable supply, expanding depot facilities, and delivering efficiently to Phoenix stations nationwide, all while maintaining safety and quality standards.

ISO 9001:2000

In February 2008, PN's bulk depot in Lanang, Davao City received the ISO 9001:2000 Quality Management System certification for receiving, storage and distribution of petroleum fuels and plane refueling services. This recognition shows our commitment to quality of service and customer satisfaction, and to continuously improving our quality management systems.



SUPPLY

To ensure reliable supply of refined petroleum products, we continue to expand our supply sources and form strategic partnerships with local and global suppliers through their local subsidiaries.

In shipping logistics, we are supported by an affiliate company, Chelsea Shipping Corporation (CSC), which operates 15 marine tankers. This easy access to a critical logistical support minimizes the potential risk of supply disruption due to scarcity of sea vessels.

EXPANDED DEPOT CAPACITY

In 2008 we increased our depot capacity through the 580,000-liter JetA1 storage facility in New Washington, Aklan, and the doubling of our Davao depot which now has a storage capacity of 13.4 million liters. We upgraded our diesel storage capacity from 3 to 6.6 million liters.

In the first quarter of 2009 we will start using the PICOP storage facility in Surigao, and finish construction of our 45-million-liter storage depot and terminal facility in Batangas Union Industrial Park.



MORE DISTRIBUTION FACILITIES

We acquired more bridger trucks, refuelers, and tankers for plane refueling and commercial fuels, doubling total capacity of our fleet from 394kl to 710kl. These 34 company-owned vehicles deliver fuel to our dealers and commercial clients in Davao, Zamboanga, General Santos, Cotabato, and Cagayan de Oro.

We also contract tanker-haulers to supplement our fleet of tankers.



PEOPLE

The engine that drives our growth is our people. We believe that passionate employees and trained business partners working towards one vision are our biggest assets.



Boxing superstar and Phoenix Petroleum business partner Manny Pacquiao with the staff at his Phoenix General Santos City station.

EMPLOYEES

From a workforce of 133, we hired an additional 36 staff, growing our team to 169 nationwide.

We held trainings and workshops on Customer Service, Leadership, and Strategic Planning. We also launched the Phoenix Idol / Phoenix Employee Awards, the first Phoenix Employee Recognition Program that acknowledges and rewards deserving Phoenix employees for their exceptional performance, work ethic and support of the Phoenix Vision, Mission and Core Values. Every year we hold the PNxtreme Sportsfest to develop cooperation, sportsmanship, and unity.

We improved our healthcare and insurance system, and continue to provide meals to our staff.

In 2008, we began publishing our quarterly company newsletter, SOAR. It features corporate news, events, business partners, outstanding employees, company values, and other industry-related articles. SOAR is distributed to employees and business partners nationwide as part of our communications and team-building thrusts.

In June we institutionalized a bi-weekly flag and company hymn ceremony in our Davao office to reaffirm our commitment to PN's Core Values, and as a reminder that the work we do contributes to local and national development.

BUSINESS PARTNERS

Every yearend we treat our business partners to a Business Partners' Appreciation Night, where we recognize and reward outstanding dealers, clients, and suppliers.

In January 2009 we began rolling out the Phoenix Operational Excellence program. Dealers will receive further training on fuels and lubes, station operations, and training of service crew. The plan includes a systematic rewards program for outstanding dealers.



Outstanding business partners receive their awards



Team Phoenix toasts to a great year during the Business Partners' Appreciation Night

BRAND

Brand vision is what sets one company apart from another. From the start we have developed our brand to differentiate it from the rest. Through promotions we bring the "Phoenix Fuels Life" experience to more people.

BOLD ENERGY

In late 2008 we launched the "Bold Energy" national brand campaign. Symbolizing the passion and drive of Phoenix are Phoenix Maiden Marian Rivera, one of the country's most popular young actresses, and national boxing hero Manny Pacquiao. Pacquiao is a business partner and opened his own Phoenix station in his hometown of General Santos City in February 2009.



PROMOTIONS

Our three promotions this year were successful and translated to more business to our stations:

- 'Multi-Caravan Tank-Full of Life' raffle promo where we gave away three multi-cabs as major prizes, and appliances, grocery items, and fuel and lubes cards as minor prizes.
- 'Ang Phoenix Driver, Linis Kinis' promo in partnership with Johnson & Johnson. Free soap was given to customers with a minimum gas purchase at Phoenix stations.
- 'Phoenix Scratch & Win' promo. A minimum purchase entitled motorists to a scratch card and win up to 500 pesos worth of fuel or lubricants.

TRADE EXPOS

We actively participated in franchising shows in Metro Manila, Cebu, Davao, and Cagayan de Oro to showcase entrepreneurial opportunities to prospective business partners in a fuel station franchise, and lubricants and car care product distributorship. In our first year of participation at the Manila franchise expo, we won Best Booth in the non-food category. These expos generated for us inquiries and follow-throughs as well as increased brand awareness.



100 STATIONS & GROWING



• Marikina, Metro Manila • San Marcelino, Zambales • Cabanatuan City, Nueva Ecija • Trece Martirez, Cavite • Canlubang, Laguna • Malasiqui, Pangasinan • Talisay City, Cebu • Davao City • Davao del Norte • Davao Oriental • Davao del Sur • Compostela Valley • Bislig City, Surigao • Bukidnon • North Cotabato • South Cotabato • Upi, Maguindanao • Agusan del Sur • Sultan Kudarat • General Santos City • Sarangani

In June 2005, a red and white "Phoenix Fuels Life" station rose for the first time, in Digos, Davao del Sur. By the end of 2005, four more Phoenix Petroleum stations stood in eastern Mindanao. Today, the Phoenix is in 100 locations across the country, from Marikina in Metro Manila to Cebu in the Visayas to Davao City in Mindanao.

We believe the strategies and infrastructure we have put in place will help bring us to our long-term goals. In pursuit of growth, we are confident, passionate, and ready.

CORPORATE SOCIAL RESPONSIBILITY

Through Phoenix Foundation Philippines, Inc. we continue to expand our community involvement as we live our core value of stewardship. Our programs focus on environment, education, outreach, and assistance to disaster victims.

EDUCATION

For school year 2008-09, Phoenix Foundation joined the government's "Adopt a School" program by helping the Hizon Elementary School in Davao City. We shoulder the honorarium of two pre-school teachers, including budget for instructional materials every month. The sponsorship benefits not only the teachers but also their 100 young students.

"Thank you very much to Phoenix for helping our school. With your sponsorship, we were able to keep two teachers and buy new books for our students whom we now call Phoenix Scholars."

— Mrs. Filipinas B. Samblingo
School administrator, Hizon Elementary School



Teachers and pre-school students of the Hizon Elementary School in Davao City use the instructional materials donated by Phoenix Foundation.

ENVIRONMENT

In May, our staff at the Batangas Union Industrial Park joined the coastal cleanup of Calingaplaya in commemoration of Gen. Marasigan Day on May 23 and Brgy. Salong fiesta the next day.

In Davao City on September 20, we participated in the International Coastal Clean-up organized by the Department of Environment and Natural Resources, City Government of Davao, and other environmental groups. Team Phoenix cleaned the shoreline and beachfront of Brgy. Pampanga, Coaco Beach, Lanang, Davao City.



International Coastal Clean-up at Coaco Beach, Lanang, Davao City



Calingaplaya Coastal Clean-up at Batangas Union Industrial Park

OUTREACH

In coordination with the Philippine Red Cross, we held our first bloodletting activity, "Ready, Set, Give" on May 10 at the Phoenix Bulk Depot in Davao City. Through this annual activity, we help not only others in need of blood but also improve the health of our blood donors.

Since 2007, we have held Christmas parties for various beneficiaries. In 2008, we supported the "Panagsadya 08," a Christmas party for blind children organized by the Resources for the Blind in Davao City, by donating rice as part of their giveaways.

On December 22, we held a Christmas Outreach Program in Brgy. Bo. Pampanga, Davao City. Over a thousand children enjoyed the games and received snacks, toys, and school supplies.



Panagsadya 08, a Christmas party for blind children



Phoenix Christmas Outreach Program in Brgy. Bo. Pampanga, Davao City



Phoenix Petroleum, represented by General Manager for Mindanao Nick Dy, hands over relief goods to Comval local officials for distribution to landslide victims.



Aklan typhoon victims receive donations from Phoenix Petroleum

DISASTER RELIEF

In late June 2008, Typhoon Frank ravaged Western Visayas, leaving 557 people dead. Along with our partners, we gave relief goods including medicine to typhoon victims in Fatima, New Washington and other sites in Aklan. Of the 133 packs, 45 were given to Gawad Kalinga beneficiaries, 63 to residents along the shoreline, and 25 to Makato residents. The donation was coursed through GK volunteers, Mayor Edgar Peralta, Vice Mayor Jean Velarde, and local representatives of the Social Welfare department.

In September 13, we distributed relief goods to victims of the landslide in Masara, Maco, Compostela Valley, which killed 24, injured 32, and affected 279 families. We turned over a truckload of rice, noodles, and canned goods to the local government and Red Cross.

"On behalf of my fellow Aklanons who benefited from your generous donation, I would like to extend my heartfelt gratitude. We are really thankful that you took the initiative to help our people although the aftermath of Frank in Aklan did not get as much media attention as did Iloilo. Thank you very much!" — Ms. Ica Aldecoa from Aklan



ANNUAL REPORT

08

BOARD OF DIRECTORS



DOMINGO T. UY
Chairman

Mr. Uy is co-founder of PNx, director since 2002 and Chairman since 2007. He is Chairman of Granscor Corporation, a holding company in real estate, mining, and commodities trading, and Director of Granland Resources Corporation and Aquamines Philippines. Mr. Uy is also a director of the Philippine National Red Cross, Davao Chapter. He is Past President of the Davao City Lions Club and Kang Ha Uy Association, Davao Chapter.



DENNIS A. UY
Vice Chairman
President and Chief Executive Officer

Mr. Uy is the founder of PNx and director since 2002. He is Chairman of the Board of Directors of Phoenix Petroleum Holdings, Inc., the holding company of PNx. He is Chairman, President, and CEO of Udenna Corporation, the parent company of PPHI. Among the subsidiaries of Udenna Corporation are: Udenna Management and Resources Corp., Chelsea Shipping Corp., Global Synergy Trade and Distribution Corp., Value Leases, Inc., and Udenna Development Corp. Mr. Uy is also the Chairman of F2 Logistics, Phoenix Philippines Foundation, Inc., and Udenna Foundation, Inc. He is a Business Management graduate of De La Salle University.



JOSE MANUEL R. QUIMSON
Director

Mr. Quimson has been a Director of PNx since 2007. He is Vice President & General Manager of Petroterminals Philippines Corporation, and the Chief Operating Officer of Chelsea Shipping Corporation. Prior to these, he was President of Petrotrade Philippines, Inc., Transman Shipping Corporation, and Transport Managers, Inc. He was also Vice Chairman of Herma Shipyard, Inc. and Managing Director and Financial Analyst of Delbros Group of Companies.



SOCORRO T. ERMAC-CABREROS
Corporate Secretary

Ms. Cabreros has been a Director of PNx since 2007 and its legal counsel since 2006. She is also the Corporate Secretary of Chelsea Shipping Corporation. She is the 2009 President of the Integrated Bar of the Philippines - Davao City Chapter. Ms. Cabreros is a former Legal Counsel of Philippine National Bank - Davao City. She worked at the Office of the Ombudsman for Mindanao and was a prosecutor for the province of Davao del Norte.



J.V. EMMANUEL A. DE DIOS
Director

Mr. De Dios was elected Director of PNx in 2008, after serving as Independent Director in 2007. He is the President, CEO and Director of Nido Petroleum Pty Ltd., an Australian Stock Exchange-listed oil and gas company. He is also Managing Director of Merritt Advisory Partners, Inc., an energy focused advisory firm; Board of Directors of Davies Energy Systems, Inc., an energy service company with offices in the Philippines and the United States; and Special Counsel at the Romulo Mabanta Buenaventura Sayoc & De Los Angeles Law Office. Mr. De Dios completed his Masters of Law at Harvard Law School and is currently its Alumni Association's Secretary. He was a Chairman of the Philippine National Oil Company Exploration Corporation, and was an Undersecretary of the Philippine Department of Energy. He was the Philippine Representative & Panel Participant of the Philippine-Kingdom of Thailand Bilateral Corporation Meeting.



RICARDO S. PASCUA
Independent Director

Mr. Pascua has been Independent director of PNx since 2007. He is Chairman of the Board and President of Happy Communications, Inc., a wireless broadband IP network operator and ITC applications services provider. He is also Chairman of the Board of Caelum Developers, Facilities and Property Mgmt Technologies, and Lucena Biodiesel Energy Corporation, a pioneering prospective producer of biodiesel fuel using coconut oil as feedstock in Lucena City. Mr. Pascua is Chairman of the Executive Committee of Phoenix Land Inc., a farm-oriented and residential resort developer. He is a Director of Boulevard Holdings, Inc.; Costa de Madera Corporation; JP Latex Technology, Inc.; and Latex Holdings, Inc. Mr. Pascua is also Adviser to the Board of Directors of Central Country Estate, Inc. He is former Vice Chair, President and Chief Executive Officer of the Metro Pacific Corporation; former Executive Director of First Pacific Company Limited; and former Vice Chairman, President and Chief Executive Officer of Fort Bonifacio Development Corporation. Mr. Pascua completed his Master of Business Management at the Asian Institute of Management.



MONICO V. JACOB
Independent Director

Mr. Jacob was elected Independent director of PNx in 2008. He is President and CEO of the STI Education Services Group and iAcademy. He is the Chairman of Global Resource for Outsourced Workers (GROW), Inc., STI-Universal Workers, Inc., Accent Healthcare/STI Banawe, Inc., and Total Consolidated Asset Management, Inc. He is a partner of the Jacob and Jacob Law Firm; member of the board of Directors of Jollibee Foods, Inc. and Philippine Dealing Systems; and Chairman and Managing Partner of CEOs Incorporated. Mr. Jacob is a former Associate Commissioner of the Securities and Exchange Commission; former General Manager of National Housing Authority; and former Chief Executive Officer of the Pag-Ibig Fund. He is also former Chairman and Chief Executive Officer of Petron Corporation and of the Philippine National Oil Company.



ANNUAL
REPORT

08

MANAGEMENT COMMITTEE



ALEJANDRO U. SUAN
Manager for Depot Operations
and Logistics

NICHOLAS D. DY
General Manager
— Mindanao

SOCORRO T. ERMAC
-CABREROS
Assistant Vice President for
Corporate Legal

EDGARDO A. ALERTA
Assistant Vice President for
Fuel Sales — Mindanao

SANDRA B. ELECCERIO
Vice President for
Human Resources and
Shared Services

DENNIS A. UY
President and
Chief Executive Officer

ALBERTO D. ALCID
Assistant Vice President
for Lubes and Chemicals

JOSE MANUEL R. QUIMSON
Vice President

ALEXANDER A. LUMBUAN
Assistant Vice President for
Engineering & Maintenance

REY P. PHALA
Credit and Collection
Manager

CHRYSS ALFONSUS V.
DAMUY
Comptroller

REBECCA PILAR C.
CATERIO
Treasury Manager

08 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 07, 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 theremuneration 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.

BOARD OF DIRECTORS

DIRECTOR	REGULAR MEETING				%
	January 17	March 11	May 8	October 16	
Domingo T. Uy	P	P	P	P	100%
Dennis A. Uy	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%
Monico V. Jacob	P	A	P	P	75%

P = Present

A = Absent

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 2008, the Board conducted four meetings. In all Board meetings, all members were present, except for one during one meeting.

COMMITTEE MEMBERS

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

	EXECUTIVE COMMITTEE	NOMINATION COMMITTEE	COMPENSATION NOMINATION	AUDIT COMMITTEE
Domingo T. Uy	C	M		M
Dennis A. Uy	M	C	M	
Jose Manuel R. Quimson	M		M	
Socorro Ermac T. Cabreros	M	M		
J.V. Emmanuel A. de Dios* ¹		M		C
Ricardo S. Pascua*			C	M

¹Mr. de Dios was appointed as Regular Director on March 7, 2008, then replaced by Mr. Monica 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. Nanola 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. 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)	
2008	1,045
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 & ANALYSIS
OF FINANCIAL CONDITIONS

The following is a discussion and analysis of the Parent Company (PPPI) and its Subsidiaries' financial performance for the years ended December 31, 2008, 2007 and 2006. The discussion should be read in conjunction with the audited consolidated financial statements and the accompanying notes. In the discussion of financial information, any reference to "the Company" means the Parent Company (PPPI) and its Subsidiaries.

The selected financial information set forth in the following table has been derived from the Company's audited consolidated financial statements for the years ended December 31, 2008, 2007 and 2006.

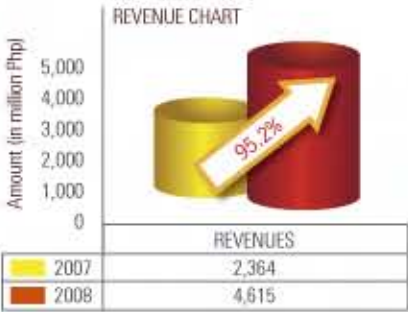
The Company's financial statements were audited by Punongbayan & Araullo for 2008, 2007 and 2006, in accordance with Philippine Financial Reporting Standards.

AS OF AND FOR THE YEARS ENDED DECEMBER 31			
IN ₱ THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS	2006	2007	2008
INCOME STATEMENT DATA:			
Revenues.....	1,493,683	2,364,232	4,615,217
Cost of sales.....	1,330,317	2,097,438	4,194,196
Net income.....	74,262	122,359	150,289
BALANCE SHEET DATA:			
Current Assets.....	413,351	762,661	1,457,228
Non-current Assets.....	94,293	429,543	910,853
Total Assets	507,644	1,192,204	2,368,081
Total Liabilities.....	313,896	625,622	1,677,323
Stockholders' Equity.....	193,748	566,582	690,758
Earnings per Share.....	3.10	0.94	0.91
Book Value per Share.....	1.67	3.93	3.76

REVIEW OF 2008 VERSUS 2007

Revenues

The company generated total revenues of P4,615 billion in 2008 which is 95.21% higher than its 2007 level of P2,364 billion, primarily due to substantial increase in sales volume of petroleum products and increase in revenues from fuels service and storage.



- Sales revenues from trading and distribution of petroleum products increased by over 97% from P2.315 billion in 2007 to P4.563 billion in 2008 resulting principally from a wider distribution network and expanded institutional customer base which resulted to 65% increase in volume. The average revenue per liter also increased to Php 40.49 in 2008 compared to Php 34.02 in 2007. The Company had eighty-six (86) operating Phoenix Fuels Life retail service stations as of December 2008 compared to thirty-three (33) retail stations as of December 31, 2007. The company will continue to open more stations during the year in 2009 and onwards.

- Income from fuel service and lease of its storage facilities rose from P48 million in 2007 to P52 million in 2008. This is a result 15% and 17% increase in service and storage volume respectively also contributed to the revenue increase.

- Interest income from money market placements and interests charges advances to related parties totaled to P43.6 million in 2008 from P13 million in 2007 this is mainly due to better interest yield of money placements and the corresponding interest charges at market rate on the advances extended to related parties.

Costs And Expenses

The Company incurred total costs and expenses of P4.450 billion in 2008, a 97% increase against 2007's P2.253 billion.

Cost of sales in 2008 stood at P4.194 billion, close to 100% increase from 2007's P 2.097 billion. The increase in volume accounts 67% of the net increase in cost of sales absolute amount, while the balance of 33% is the result of the increase in average selling prices. Sales Volume of Petroleum Products and Lubricants in 2008 increased by 66%, from 68 million liters in 2007 to 113 million liters in 2008. Average cost per liter also increased to Php 36.96 in 2008 compared Php 30.81 in 2007, a 20% increase on per unit cost.

VOLUME (IN '000)			INCREASE (DECREASE)		VOLUME IN BARREL	
	2008	2007	QUANTITY	PERCENT	2008	2007
Refined Products	112,015	67,480	44,534	66%	705	424
DIESEL	63,510	37,666	25,844	69%	399	237
MOGAS	34,567	14,814	19,753	133%	217	93
KEROSENE	859	527	332	63%	5	3
SFO	12,219	13,508	(1,290)	-10%	77	85
JET-A1	861	965	(105)	-11%	5	6
Lubes						
Lubricants	1,475	591	884	150%	9	4
Rental and Into-Plane Services:						
STORAGE	16,645	14,273	2,372	17%	105	90
INTO-PLANE	17,051	14,810	2,248	15%	107	93

Higher volume which accounts the increase variable Selling Expense like trucking and delivery costs, as well as the continuous expansion and growth of the Company's business operations resulted in higher total Selling and Administrative Expenses. In 2008, the company substantially has its presence in areas of Socksargen, Cotabato City and Maguindanao. It also has done trading activities in areas of Cagayan de Oro City and Cebu City. The Selling and administrative Expenses in 2008 is however lower by Php 0.05/liter compared to 2007 or by 2% on a per liter basis.

Net Income

As a result of the foregoing, the Company's net income increased to P150 million in 2008 from P122 million in 2007, a 23% growth compared to the immediately preceding year.

Tax Due

The Parent 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 (5) years from November 16, 2005.

The tax income reported in 2008 and 2007 amounting to P 5.83 million and P 4.35 million respectively refers substantially to deferred tax income of subsidiaries relating to net operating loss carry over (NOLCO) during its pre-operating stage.

FINANCIAL CONDITION

Total resources of the Company as of December 31, 2008 amounted to P2.370 billion, a growth of 99% as compared to P 1.192 billion as of December 31, 2007. The improvement in its financial assets reflected the continuous growth and expansion of the Company's and working on its strategic directions as well as its overall outstanding performance.

Cash and cash equivalents increased by 213% from P114.2 million as of December 31, 2007 to P357.4 million as of December 31, 2008 this is due to the increasing sales of the company coupled by proper accounts receivable management.

The Company current ratio for the year ended December 31, 2008 may have been challenged as internally generated funds of the company out of its Earnings before Interest, depreciation and amortization (EBITDA) was utilized for its continuous expansion program. This however will be re-strengthened once the term-loan package with the Omnibus Credit Facility is drawn by the Company. This in effect reimburses the Company's Capital Expenditures (CAPEX) or a sort of refinancing of CAPEX. Current Assets however increased to P1,459 million as of December 31, 2008, up from P 763 million as of December 31, 2007.

Trade and other receivables increased to P 765 million as of December 31, 2008 versus P 361 million as of December 31, 2007 as volume of sales soared. December 2008 sales volume, which is the bulk of the year-end receivables, was doubled compared to December 2007 level.

Inventories decreased by 12%, from P178 million as of December 31, 2007 to P156 million as of December 31, 2008 as a result of lower cost per liter compared to the same period of last year. The Company also maintained minimum inventory level due to the falling prices during the period.

Due from related parties decreased by 54% from P36 million as of December 31, 2007 to P16 million as of December 31, 2008 due to collection of advances, these were previously granted in support of initiatives geared towards seizing business opportunities to strengthen the Company's competitive position in the industry.

Restricted deposits increased to P80.6 million as of December 31, 2008 from P45 million as of December 31, 2007 due to additional restricted compensating deposits with the Company's commercial banks for additional credit line facilities and corresponding availments.

Net Input Taxes increased by 80% from P23 million in December 31, 2007 to P45.8 million in December 31, 2008 due to the accumulated Input taxes out of Capital Expenditures because of existing expansions and procurement of Inventories.

Other current assets increased to P37 million as of December 31, 2008 from P5.9 million as of December 31, 2007 due to increase in prepayments to include advance rental for lease of various properties for retail stations, terminal sites and other prepaid items. Portion of this said Other Current assets are Inventory of various supplies.

As of December 31, 2008, the Company's property and equipment, net of accumulated depreciation, increased to P881 million compared to P414 million as of December 31, 2007 as the Company continued with 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 P18.9 million as of December 31, 2008 from P11 million as of December 31, 2007 due mainly to increase in various rental deposits on leased land for stations and depot/terminal sites.

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 P330 million as of December 31, 2007 to P732 million as of December 30, 2008 due to higher volume of sales which is double if to compare the December 2008 VS. December 2007 volume. Installment payable and mortgage payable refers to the acquisition of land in strategic locations and service vehicles respectively. Installment payable on land was pre-terminated this March 2009.

Trade and other payables to P750 million as of December 31, 2008 compared to P169 million as of December 31, 2007. Increase in Trade Payable was due to increase in volume of sales which purchases has term of an average of forty-five (45) days. While, other payable increased due to outstanding payables on the costs of construction of Depot/Terminal facilities and Retail service stations. These payables will be partly financed by the term-loan packaged under the Omnibus Credit facilities signed with the syndicate of banks led by Security Bank Capital.

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 P 88 million as of December 31, 2008. The land purchased in these strategic locations has either been constructed depot in 2008 or construction of depot/terminal is nearing completion. The bulk of the amount is due to Bacnotan Industrial Park Corporation (BIPC), from which the Company bought some 35,000 square meters of land and payable over a period of Five (5) years payable until March 1, 2012. This installment payable with BIPC was however pre-terminated last March 2009.

Total Stockholders' Equity increased to P 691 million as of December 31, 2008 from P 567 million as of December 31, 2007 due to 2008 net profit of the Company for the year, net of the Cash Dividend declared and paid amounting to Php 14,500,000.00 or Php 0.10/share.

CASHFLOW

Net Cash outflow from operating activities in 2008 amounted to P334 million as a result of the year's Earnings before Interest depreciation and amortization. The Company was also able to utilize properly the suppliers' credit for both on its purchases of supplies and on its Capital Expenditures and move aggressively to increase sales as well as proceed with its expansion program.

Cash flow used in investing activities amounted to P489 million. This reflects the Company's additional investments and expansion in Phoenix Fuels Life petroleum retail network, depot/terminal facilities, and increase in lorry and refueller tanker to support its logistic needs, and further roll-out of the nationwide distributorship network of its Lubricants & Chemicals Division.

Cash provided from financing activities amounted to P399 million primarily due to working capital financing availed from the bank in form of Letters of Credit (L/C) and Trust Receipts (T/R). The above is however net to the dividend payout and acquisition of additional treasury shares as part of its approved Php 50,000,000 Company buy-back program.

TOP FIVE (5) KEY PERFORMANCE INDICATORS

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

	2008	2007	2006
Current Ratio ¹	0.92	1.42	1.32
Debt to Equity ²	2.43	1.10	1.62
Return on Equity ³	24%	32%	68%
Net Book Value Per Share ⁴	3.75	3.93	1.67
Earnings Per Share ⁵	0.91	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 - Total stockholders equity divided by the total number of shares issued and outstanding

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

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

The Company current ratio for the year ended December 31, 2008 may have been challenged as internally generated funds of the Company out of its Earnings before Interest, depreciation and amortization (EBITDA) was utilized for its continuous expansion program. This however will be re-strengthened once the term-loan package with the Omnibus Credit Facility is drawn by the Company. This in effect reimburses the Company's Capital Expenditures (CAPEX) or a sort of refinancing of CAPEX. The Financial Condition is further strengthened by the effect of the acquisition of the Batangas Industrial Park Corporation March 2009 as the property was acquired lower than its fair value.



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of P-H-O-E-N-I-X Petroleum Philippines, Inc. is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2008, 2007, and 2006. 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 and Chief Executive Officer


FELIX CESAR L. ZERRUDO, JR.
Vice President - Treasury

Report Of Independent Auditors

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

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. Pampang, 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, 2008 and 2007, and the consolidated income statements, statements of changes in equity and cash flow statements for each of the three years in the period ended December 31, 2008, and and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

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, 2008 and 2007, and of their consolidated financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO


By: **Ramilito L. Nañola**
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 1566070, January 5, 2009, Makati City
SEC Accreditation No. 0395-A
BIR AN 08-002511-19-2006 (Sept. 8, 2006 to 2009)

April 8, 2009

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, 2008 AND 2007

(Amounts in Philippine Pesos)

	Notes	2008	2007
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	P 357,397,359	P 114,178,773
Trade and other receivables	5	765,217,736	361,064,245
Inventories	6	155,966,344	178,059,559
Due from related parties	20	16,240,705	35,599,076
Restricted deposits	7	80,640,980	44,751,820
Input value-added tax		44,411,280	23,084,399
Other current assets	8	37,353,377	5,923,448
Total Current Assets		1,457,227,781	762,661,320
NON-CURRENT ASSETS			
Property and equipment - net	9	881,346,333	413,703,395
Deferred tax assets	19	10,650,027	4,813,793
Other non-current assets - net	10	18,856,720	11,026,000
Total Non-current Assets		910,853,080	429,543,188
TOTAL ASSETS		P 2,368,080,861	P 1,192,204,508

Continued on next page

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, 2008, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	2008	2007
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Loans and borrowings	11	P 831,478,373	P 362,605,399
Trade and other payables	12	750,441,962	169,431,093
Total Current Liabilities		1,581,920,335	532,036,492
NON-CURRENT LIABILITIES			
Loans and borrowings	11	72,297,113	87,882,299
Other non-current liabilities - net	13	23,105,550	5,703,750
Total Non-current Liabilities		95,402,663	93,586,049
Total Liabilities		1,677,322,998	625,622,541
EQUITY			
Capital stock	21	188,000,198	145,000,000
Additional paid-in capital	21	227,114,249	227,114,249
Treasury shares	21	(17,252,140)	(5,639,300)
Retained earnings		292,895,556	200,107,018
Total Equity		690,757,863	566,581,967
TOTAL LIABILITIES AND EQUITY		P 2,368,080,861	P 1,192,204,508

See Notes to Consolidated Financial Statements.

	Notes	2008	2007	2006
REVENUES				
Sale of goods - net	P	4,562,905,713	P 2,315,981,493	P 1,465,481,108
Fuel service, storage income and other revenue		52,311,246	48,250,811	27,149,668
		4,615,216,959	2,364,232,304	1,492,630,776
COST AND EXPENSES				
Cost of sales and services	14	4,194,195,752	2,097,437,575	1,330,317,443
Selling and administrative expenses	15	255,821,298	156,531,497	83,535,112
		4,450,017,050	2,253,969,072	1,413,852,555
OTHER INCOME (CHARGES)				
Finance costs	11	(46,050,530)	(8,701,202)	(5,568,558)
Finance income	4, 20	25,328,030	12,584,885	1,052,395
Others		(19,978)	-	-
		(20,742,478)	3,883,683	(4,516,163)
INCOME BEFORE TAX AND PRE-ACQUISITION LOSS		144,457,431	114,146,915	74,262,058
PRE-ACQUISITION LOSS	2	-	3,861,745	-
INCOME BEFORE TAX		144,457,431	118,008,660	74,262,058
TAX INCOME	17, 19	5,831,307	4,350,106	-
NET INCOME	22	P 150,288,738	P 122,358,766	P 74,262,058
Earnings per share	22	P 0.91	P 0.94	P 3.10

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	2008	2007	2006
CAPITAL STOCK	21			
Balance at beginning of year	P	145,000,000	P 116,000,000	P 10,000,000
Stock dividends		43,000,198	-	-
Additional issuance during the year		-	29,000,000	106,000,000
Balance at end of year		188,000,198	145,000,000	116,000,000
ADDITIONAL PAID-IN CAPITAL	21	227,114,249	227,114,249	-
TREASURY SHARES - At Cost	21			
Balance at beginning of year		(5,639,300)	-	-
Additional purchases during the year		(11,612,840)	(5,639,300)	-
Balance at end of year		(17,252,140)	(5,639,300)	-
DEPOSITS ON FUTURE STOCK SUBSCRIPTIONS	21			
Balance at beginning of year		-	-	10,000,000
Conversion to common stock during the year		-	-	(10,000,000)
Balance at end of year		-	-	-
RETAINED EARNINGS				
Balance at beginning of year		200,107,018	77,748,252	3,486,194
Net income		150,288,738	122,358,766	74,262,058
Stock dividends	21	(43,000,198)	-	-
Cash dividends	21	(14,500,002)	-	-
Balance at end of year		292,895,556	200,107,018	77,748,252
TOTAL EQUITY	P	690,757,863	P 566,581,967	P 193,748,252

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before tax	P	144,457,431	P 118,008,660	P 74,262,058
Adjustments for				
Depreciation and amortization	9	58,801,456	32,740,544	16,270,399
Interest expense	11	46,050,530	6,246,974	3,021,158
Interest income		(25,328,030)	(12,584,884)	(1,052,395)
Operating income before working capital changes		223,981,387	144,411,294	92,501,220
Increase in trade and other receivables		(404,153,491)	(152,883,692)	(176,499,777)
Decrease (increase) in inventories		22,093,215	(134,517,047)	(2,614,966)
Increase in restricted deposits		(35,889,160)	(30,566,588)	(14,185,232)
Decrease (increase) in other current assets		(52,756,810)	(28,264,803)	1,900,716
Increase in trade and other payables		581,010,869	676,682	140,682,572
Cash generated from (used in) operations		334,286,010	(201,144,154)	41,784,533
Cash paid for income taxes	19	(4,926)	(1,682)	-
Net Cash From (Used in) Operating Activities		334,281,084	(201,145,836)	41,784,533
CASH FLOWS FROM INVESTING ACTIVITIES				
Net acquisitions of property and equipment	9	(526,444,394)	(238,329,682)	(40,217,076)
Collections from related parties	20	53,445,979	184,045,145	99,467,594
Interest received		25,328,030	12,584,884	1,052,395
Advances to related parties	20	(34,087,608)	(163,909,858)	(155,201,957)
Net increase in other non-current assets		(7,830,720)	(10,566,769)	(550,529)
Net Cash Used in Investing Activities		(489,588,713)	(216,176,280)	(95,449,573)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in loans and borrowings		453,287,788	190,743,944	45,095,275
Interest paid		(46,050,530)	(6,246,974)	(3,021,158)
Increase in non-current liabilities		17,401,800	5,703,750	-
Payments of cash dividends	21	(14,500,002)	-	-
Increase in treasury shares	21	(11,612,840)	(5,639,300)	-
Additional paid-in capital	21	-	227,114,249	-
Repayments of due to related parties		-	(140,200)	(19,235,055)
Proceeds from issuance of shares of stock	21	-	29,000,000	96,000,000
Net Cash From Financing Activities		398,526,216	440,535,469	118,839,062
NET INCREASE IN CASH AND CASH EQUIVALENTS		243,218,587	23,213,353	65,174,022
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		114,178,773	90,965,420	25,791,398
CASH AND CASH EQUIVALENTS AT END OF YEAR	P	357,397,359	P 114,178,773	P 90,965,420

SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING AND FINANCING ACTIVITIES

In 2008, the Group declared and distributed stock dividends amounting to P43.0 million.

In 2007, the Group acquired land amounting to P134.9 million through installment. The outstanding installment payable as of December 31, 2008 and 2007 amounted to P82.6 million and P114.7 million, respectively (see Note 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 21).

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.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

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

The Parent Company 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. PPHI's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The ultimate parent of the Company is the Udenna Corporation, which was primarily organized to purchase, acquire, take over and manage all or any parts of the rights, assets, business and property, undertake and assume all the liabilities of others. The ultimate parent company's registered office is Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The Company has a total of 86 service stations, including three service stations in Luzon operating as of December 31, 2008. As of December 31, 2008, there are a total of 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 operations.

PPMI is primarily engaged in organizing, managing, administering, running and supervising the operations and marketing of various kinds of services-oriented companies such as petroleum service stations. PPMI was registered with the SEC on January 31, 2007 and started commercial operations in February 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 started commercial operations in 2008.

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

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

The financial statements of the Parent Company and Subsidiaries (the Group) for the year ended December 31, 2008 (including the comparatives for the years ended December 31, 2007 and 2006) were authorized for issue by the Group's President and Chief Executive Officer on April 8, 2009.

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 (PFRS). PFRS 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, except for the re-measurement of certain financial assets and liabilities at amortized cost. The measurement bases are more fully described in the accounting policies in the succeeding pages.

b) 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).

(c) Reclassification of Accounts

Certain accounts in the 2007 and 2006 consolidated financial statements have been reclassified to conform to the 2008 consolidated financial statement presentation and classification.

2.2 Impact of New Amendments and Interpretations to Existing Standards

(a) Effective in 2008 that are Relevant to the Group

In 2008, the Group adopted for the first time the following new interpretation and amended standards which are mandatory in 2008.

Philippine Interpretation	
International Financial Reporting Interpretations Committee (IFRIC 14)	Philippine Accounting Standards (PAS) 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
PAS 39 and PFRS 7 (Amendments)	PAS 39, Financial Instruments: Recognition and Measurements and PFRS 7, Financial Instruments: Disclosures

Discussed below are the effects on the financial statements of the new accounting interpretation and amended 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 guidance on assessing the limit in PAS 19, Employee Benefits, on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group's adoption of this interpretation does not have any impact on the Group's financial statements, as it has a retirement benefit obligation and is not subject to any minimum funding requirements.
- (ii) PAS 39 (Amendment), Financial Instruments: Recognition and Measurement and PFRS 7 (Amendment), Financial Instruments: Disclosures (effective from July 1, 2008). The amendments permit an entity to:
 - reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of fair value through profit or loss category in particular circumstances; and,
 - transfer from the available-for-sale category to the loans and receivable category those financial assets that would have met the definition of loans and receivables, provided that the entity has the intention and the ability to hold those financial assets for the foreseeable future.

The amendments are applicable in a partially retrospective manner up to July 1, 2008 provided that the reclassification was made on or before November 15, 2008, the cut-off date set by the FRSC. After the cut-off date, all reclassifications will only take effect prospectively. Currently, the Group does not have financial assets at fair value through profit or loss and available-for-sale financial assets, the Management determined that the adoption of these amendments has no impact on the 2008 financial statements.

(b) Effective Subsequent to 2008 but not Relevant to the Group

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2008 but are not relevant to the Group's operations:

Philippine Interpretation IFRIC 11	:	Group and Treasury Share Transactions
Philippine Interpretation IFRIC 12	:	Service Concession Agreements

(c) Effective Subsequent to 2008 that are Relevant to the Group

There are new and amended standards that are effective for periods subsequent to 2008. The following new standards, effective for annual periods beginning on or January 1, 2009, are relevant to the Group which the Group will apply in accordance with their transitional provisions.

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs
PAS 32 and PAS 1 (Amendments)	:	Financial Instruments: Presentation and Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
Various Standards	:	2008 Annual Improvements to PFRS

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

- (i) 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 financial statements.
- (ii) PAS 23 (Revised 2007), Borrowing Costs (effective from January 1, 2009). Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. The Group has initially determined that adoption of this new standard will not have significant effects on the financial statements for 2009, as well as for prior and future periods, as the Group's current accounting policy is to capitalize all interest directly related to qualifying assets.
- (iii) PAS 32 (Amendment), Financial Instruments: Presentation and PAS 1 (Amendment), Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective from January 1, 2009). The amendments require certain financial instruments that represent a residual interest in the net assets of an entity, which would otherwise be classified as financial liabilities, to be classified as equity, if both the financial instrument and the capital structure of the issuing entity meet certain conditions. The Group does not expect any impact on its financial statements when it applies the amendments in 2009.

(iv) 2008 Annual Improvements to PFRS. The FRSC has adopted the Improvements to International Financial Reporting Standards 2008. These amendments became effective in the Philippines in annual periods beginning on or after January 1, 2009. The Group expects the amendments to the following standards to be relevant to the Group's accounting policies:

- PAS 23 (Amendment), Borrowing Costs. The amendment clarifies the definition of borrowing costs to include interest expense determined using the effective interest method under PAS 39. This amendment will be applied by the Group in 2009. The Group has initially determined that adoption of this new standard will not have significant effects on the financial statements for 2009, as well as for prior and future periods, as the Group's current accounting policy is to capitalize all interest directly related to qualifying assets.
- PAS 1 (Amendment), Presentation of Financial Statements. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. Presently, the Group has no financial instruments held for trading financial assets, thus, this amendment will have no impact in the Group's 2009 financial statements.
- PAS 19 (Amendment), Employee Benefits. The amendment includes the following:
 - Clarification that a curtailment is considered to have occurred to the extent that benefit promises are affected by future salary increases and a reduction in the present value of the defined benefit obligation results in negative past service cost.
 - Change in the definition of return of plan assets to require the deduction of plan administration costs in the calculation of plan assets return only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
 - Distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
 - Removal of the reference to recognition in relation to contingent liabilities in order to be consistent with PAS 37, Provisions, Contingent Liabilities and Contingent Assets, which requires contingent liabilities to be disclosed and not recognized.

The Group's management assessed that this amendment to PAS 19 will have no impact on its 2009 financial statements.

- PAS 38 (Amendment), Intangible Assets. The amendment clarifies when to recognize a prepayment asset, including advertising or promotional expenditures. In the case of supply of goods, the entity recognizes such expenditure as an expense when it has a right to access the goods. For services, an expense is recognized on receiving the service. Also, prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group initially determined that adoption of this amendment will not have a material effect on its 2009 financial statements.
- PAS 39 (Amendment), Financial Instruments: Recognition and Measurement. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was changed. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The Group initially determined that adoption of this amendment will not have a material effect on its 2009 financial statements.

- PAS 40 (Amendment), Investment Property. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. Presently, the Group has no investment property, thus, this amendment will have no impact in the Group's 2009 financial statements.

Minor amendments are made to several other standards; however, those amendments are not expected to have a material impact on the Group's 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 (see Note 1) after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate an impairment are recognized in the consolidated financial statements.

In 2007, the Parent Company acquired 100% ownership in PPC, PPML, PGMI and PSC that gave rise to Goodwill (see Note 10) and pre-acquisition loss presented in the 2007 income statement.

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).

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, restricted deposits and refundable rent deposits under non-current assets in the consolidated balance sheets).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. 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, except for changes in fair values of reclassified financial assets under PAS 39 and PFRS 7 (Amendments). 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
Transportation and 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 security deposits (under Other Non-current Liabilities account in the consolidated balance sheet), 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 security deposits 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 identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.13) and is presented under Other Non-current Assets account 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, storage income and other revenue – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. This account includes franchise income which has minimal amount.
- (c) Interest – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).
- (d) Rent income – Revenue is recognized over the lease term as it becomes receivable according to the provision of the lease. This is presented as part of the Fuel Service, Storage Income and Other Revenue 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, non-contributory 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 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 can 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 part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

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

2.16 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 irrespective of whether these are acquired below or above par value.

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

Retained earnings include all current and prior period results as disclosed 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.

2.18 Segment Information

The Group has not presented segment information because, at present, the Group has similar nature of operations. Management believes that segment reporting is more appropriate to enterprises offering group of products and services or operating in different geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects and risks that are relevant to assessing the risks and returns of a diversified or multinational enterprise.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) 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 P30,872,124, P6,915,184 and P3,005,065 for the years ended December 31, 2008, 2007 and 2006, respectively (see Note 15).

Rent income earned for the years 2008, 2007 and 2006 amounted to P17,237,494, P10,329,087 and P9,304,298, respectively (see Note 23). These are presented as part of the Fuel Service, Storage Income and Other Revenue account 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 23.

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 Lives of Property and Equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analyzed in Note 9. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above. There is no change in estimated useful lives of property and equipment during the year.

(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.

There are no impairment losses recognized in 2008, 2007 and 2006.

(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 amounted to P10.6 million and P4.8 million as of December 31, 2008 and 2007 (see Note 19).

(d) Determining Net Realizable Value of Inventories

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories (P156.1 million and P178.1 million as at December 31, 2008 and 2007, respectively) is affected by price changes. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories in the next financial year.

(e) Retirement and Other Benefits

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 16 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 P3.0 million and P1.8 million in 2008 and 2007, respectively, and nil in 2006 (see Note 16.2).

4. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2008	2007
Cash on hand and in banks	P 297,380,830	P 53,178,773
Short-term placements	60,016,529	61,000,000
	P 357,397,359	P 114,178,773

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:

	2008	2007
Trade receivables	P 556,234,756	P 269,827,336
Advances to suppliers	159,453,618	73,527,684
Non-trade receivables	35,284,040	13,861,221
Other receivables	14,245,322	3,848,004
	P 765,217,736	P 361,064,245

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, 2008 and 2007. The carrying amounts of these short-term financial assets are reasonable approximations of their fair values.

6. INVENTORIES

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

	Note	2008	2007
Lubricants	14	P 84,230,244	P 31,836,849
Fuel	14	71,736,100	146,222,710
		P 155,966,344	P 178,059,559

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 trusted inventories or their sales proceeds (see Note 11.1).

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. Interest rates for this type of deposit range from 3.125% to 5.975% per annum.

8. OTHER CURRENT ASSETS

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

	2008	2007
Prepayments	P 34,896,771	P 5,307,269
Supplies	1,795,851	366,007
Others	660,755	250,172
	P 37,353,377	P 5,923,448

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2008 and 2007 are shown below:

	Buildings, Depot and Pier Facilities	Leasehold and Land Improvements	Gasoline Station Equipment	Office Furniture and Equipment	Hauling and Heavy Equipment	Transportation and Other Equipment	Land	Construction in Progress	Total
DECEMBER 31, 2008									
Cost	P 74,228,994	P 20,067,069	P 249,002,393	P 44,393,068	P 103,229,136	P 40,607,337	P 134,853,747	P 338,399,426	P 1,004,781,170
Accumulated depreciation and amortization	(18,757,638)	(7,491,121)	(39,307,495)	(17,042,195)	(27,420,428)	(13,415,960)	-	-	(123,434,837)
Net carrying amount	P 55,741,356	P 12,575,948	P 209,694,898	P 27,350,873	P 75,808,708	P 27,191,377	P 134,853,747	P 338,399,426	P 881,346,333
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	P 85,764,364	P 476,332,067
Accumulated depreciation and amortization	(12,786,672)	(3,962,832)	(17,199,262)	(12,310,696)	(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	P 85,764,364	P 413,703,395
JANUARY 1, 2007									
Cost	P 35,312,907	P 9,324,129	P 32,589,976	P 20,340,326	P 21,216,052	P 4,475,187	P -	P -	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 -	P -	P 93,370,359

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007 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	Transportation and Other Equipment	Land	Construction in Progress	Total
Balance at January 1, 2008, net of accumulated depreciation and amortization	P 38,254,514	P 13,764,126	P 45,203,030	P 26,087,750	P 45,896,533	P 23,879,330	P 134,853,747	P 85,764,365	P 413,703,395
Additions	23,187,807	2,324,596	132,265,622	5,705,605	44,059,419	10,656,994	-	307,004,782	525,204,825
Transfers	-	-	54,334,479	-	-	-	-	(54,334,479)	-
Disposals	-	-	-	-	-	(888,913)	-	-	(888,913)
Adjustments	-	16,479	-	288,957	1,255,702	602,586	-	(35,242)	2,128,482
Depreciation and amortization charged for the year	(5,970,965)	(3,529,253)	(22,108,233)	(4,731,439)	(15,402,946)	(7,058,620)	-	-	(58,801,456)
Balance at December 31, 2007 net of accumulated depreciation and amortization	P55,471,356	P12,575,948	P209,694,898	P 27,350,873	P 75,808,708	P 27,191,377	P134,853,747	P338,399,426	P 881,346,333
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
Adjustments	-	-	-	-	-	-	-	-	-
Depreciation and amortization 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, 2006 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

Certain properties with an aggregate carrying value of P5,522,405 and P5,392,198 as of December 31, 2008 and 2007, respectively, are mortgaged with local banks (see Notes 11.4).

In addition, land amounting to P114,743,898 was acquired from Bacnotan Industrial Park Corporation (BIPC) through installment payable (see Note 11.3).

10. OTHER NON-CURRENT ASSETS

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

	Note	2008	2007
Goodwill		P 9,344,134	P 9,344,134
Refundable rent deposits		7,277,348	1,681,866
Deferred minimum lease payments	23	2,229,880	-
Others		5,358	-
		P 18,856,720	P 11,026,000

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 (see Note 2.3).

Refundable rent deposits represent deposit of the Group for the lease of various parcels of land. These deposits are refundable at the end of the term of agreement and are measured at amortized cost. The total day one loss amounting to P2.2 million is determined by calculating the present value of the cash flows anticipated until the end of the lease terms using the related market interest free rates and is amortized over the lease term. As the refundable rent deposits do not have an active market, the underlying interest rates were determined by reference to market interest rate of comparable financial instrument.

11. LOANS AND BORROWINGS

This account consists of the following as of December 31:

	2008	2007
Current:		
Liabilities under letters of credits and trust receipts	P 732,177,470	P 329,652,673
Installment and notes payable	97,147,890	30,536,933
Mortgage payable	2,153,013	2,415,793
	P 831,478,373	P 362,605,399
Non-current:		
Installment and notes payable	P 69,937,865	P 84,206,965
Mortgage payable	2,359,248	3,675,334
	P 72,297,113	P 87,882,299

11.1 Liabilities Under Letters of Credits and Trust Receipts

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

Interest expense for 2008, 2007 and 2006 amounted to P33,559,798, P6,246,974 and P3,021,158, respectively, and were presented as part of the finance costs in the consolidated income statements.

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, properties of a related party and a surety of a stockholder.

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

11.2 Credit Line

In October 2008, the Group entered into a P750,000,000 Omnibus Term Credit Facility Agreement with Syndicate of Banks. In that facility, the Syndicate of Banks have agreed to provide financing to the parent company to support the working capital requirements, specifically the purchase of petroleum products, locally or through importation, for trading and distribution, and to partially finance the Group's capital expenditure requirements.

The credit line will be collateralized by the Group's future inventories and certain property and equipment.

The financing to be provided under this agreement consists of domestic/import LC and TR line by the banks for domestic or import LC of up to P600,000,000 and loan by the lenders in the aggregate amount of P150,000,000. Draw down for the Term Facility and use of LC/TR Facility is planned by the Group to be on April 2009.

11.3 Installment Payable

The installment payable represents liability to 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 computed from the due date until full payment is made. However, if the delay in the installments due is more than 120 days from and after the due date, BIPC may at its option, elect to extra-judicially rescind the contract by written notice to the Group and without need of judicial intervention in which case BIPC shall have the right to retain 50% of the downpayment and any other payment made as liquidated damages for non-payment. Also, all improvements introduced by the Group on the land shall become properties of BIPC. This installment payable was preterminated in March 2009.
- (c) The Deed of Absolute Sale shall be executed and ownership of the land shall be transferred to the Group only upon full payment of installment payable, effectively using the land as security for the liability. The installment payable to a certain individual is payable monthly until March 2009.

11.4 Mortgage Payable

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

12. TRADE AND OTHER PAYABLES

This account consists of:

		<u>2008</u>	<u>2007</u>
Trade payables	P	690,398,533	P 146,528,514
Accrued expenses		54,924,248	17,434,381
Others		5,119,181	5,468,198
	P	<u>750,441,962</u>	P <u>169,431,093</u>

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

Due to the short-term nature of trade and other payables, management considers the carrying amounts recognized in the balance sheets to be reasonable approximations of their fair values.

13. OTHER NON-CURRENT LIABILITIES

This account consists of:

	<u>Note</u>	<u>2008</u>	<u>2007</u>
Security deposits		P 16,190,545	P 3,890,000
Retirement benefit obligation	16.2	2,970,928	1,813,750
Unearned rent		3,944,077	-
	P	<u>23,105,550</u>	P <u>5,703,750</u>

Security deposits represent deposits received from dealers for the lease of equipment that are installed in retail stations and are refundable at the end of the lease terms. The deposits are carried at amortized cost using the effective interest rates at the inception of the lease contracts. The day one gain amounting to P3,944,077 is determined by calculating the present value of the cash flows anticipated until the end of the lease term using certain risk free rates and is amortized over the lease terms. As the deposits do not have an active market, the underlying interest rates were determined by reference to market interest rate of comparable financial instrument.

14. COST OF SALES

This account is composed of the following:

	<u>Note</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Inventories at beginning of year	6	P 178,059,559	P 43,542,512	P 40,927,546
Net purchases during the year		4,170,603,537	<u>2,231,954,622</u>	<u>1,332,932,409</u>
Goods available for sale		4,348,663,096	2,275,497,134	1,373,859,955
Inventories at end of year	6	(155,966,344)	<u>(178,059,559)</u>	<u>(43,542,512)</u>
	P	<u>4,192,696,752</u>	P <u>2,097,437,575</u>	P <u>1,330,317,443</u>

15. OPERATING EXPENSE BY NATURE

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

	Notes	2008	2007	2006
Cost of sales:				
Fuels	P	4,079,631,960	P 2,051,253,972	P 1,330,317,443
Lubricants		113,064,791	46,183,603	-
Cost of services		1,499,001	-	-
Depreciation and amortization	9	58,801,456	32,740,544	16,270,399
Salaries and employee benefits	16.1	52,807,485	43,898,747	15,895,572
Rent	20	30,872,124	6,915,184	3,005,065
Fuel, oil and lubricants		17,945,361	8,387,492	5,693,008
Trucking charges		12,573,778	2,278,463	3,580,251
Ads and promo		12,437,160	8,255,498	6,970,022
Office supplies		10,423,649	7,193,268	2,066,814
Travel and transportation		10,383,468	5,720,417	2,580,270
Utilities		6,833,648	6,350,572	1,797,820
Professional fees		6,089,715	4,038,325	2,880,189
Repairs and maintenance		5,294,260	5,320,096	10,652,681
Representation		4,230,721	3,512,357	3,546,070
Sales commissions		4,191,711	-	-
Security fees		3,292,615	1,908,075	1,074,292
Taxes and licenses		2,945,398	7,412,244	4,146,791
Insurance		2,698,250	2,091,100	1,075,309
Outside services		2,572,710	2,902,195	-
Service fee		456,265	2,800,000	-
Miscellaneous		10,971,524	4,806,920	2,300,559
	P	4,450,017,050	P 2,253,969,072	P 1,413,852,555

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

	2008	2007	2006
Cost of sales and services	P 4,194,195,752	P 2,097,437,575	P 1,330,317,443
Selling and administrative expenses	255,821,298	156,531,497	83,535,112
	P 4,450,017,050	P 2,253,969,072	P 1,413,852,555

16. EMPLOYEE BENEFITS

16.1 Employee Benefits

Expenses recognized for salaries and employee benefits (see Note 15) are presented below:

	2008	2007	2006
Salaries and wages	P 40,863,335	P 32,056,842	P 10,997,855
Employee welfare and other benefits	8,117,163	7,072,292	1,859,314
13th month pay and bonuses	3,826,987	4,769,613	3,038,403
	P 52,807,485	P 43,898,747	P 15,895,572

16.2 Retirement Benefit Obligation

The Company 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 Other Non-current Liabilities account (see Note 13) in the consolidated balance sheets as of December 31 follows:

	2008	2007
Present value of obligation	P 2,418,400	P 2,799,612
Unrecognized actuarial gains (losses)	552,528	(985,862)
	P 2,970,928	P 1,813,750

There was no retirement benefit obligation recognized as of December 31, 2006 since the amount is deemed insignificant.

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

	2008	2007
Balance at beginning of year	P 2,799,612	P -
Current service cost	865,425	1,781,175
Interest cost	232,928	32,575
Actuarial loss (gain)	(1,479,565)	985,862
Balance at end of year	P 2,418,400	P 2,799,612

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

	2008	2007
Current service cost	P 865,425	P 1,781,175
Interest cost	232,928	32,575
Loss recognized in the year	28,825	-
	P 1,127,178	P 1,813,750

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

	2008	2007
Discount rate	15.50%	8.32%
Expected rate of salary increase	10.00%	5.00%

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

17. 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) No. 8479 (Downstream Oil Industry Deregulation Act). Under its registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

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

- (a) Income tax holiday (ITH) for five years from November 16, 2005 without extension or bonus year from the date of registration;
- (b) Additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to number of workers set by the board of not more than US\$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH;
- (c) Minimum duty of three percent and VAT on imported capital equipment;
- (d) Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment;
- (e) Importation of consigned equipment for a period of five years from the date of registration, subject to posting of a re-export bond; and,
- (f) Other non-fiscal incentives, which may be applicable.

18. REGISTRATION WITH DAVAO CITY INVESTMENT INCENTIVE CODE OF 1994

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

- (a) Exemption from payment of Building permit fees, and other fees and charges;
- (b) Exemption from payment of Mayor's permit fees, local business sales taxes, and other local fees and charges imposed under existing ordinances for a period of three years to start on the first day of operations; and
- (c) Exemption from payment of the basic real property tax but excluding the barangay share for two years from the effectivity (accrual) of the property tax.

19. TAXES

The major components of tax income reported in the consolidated income statements for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Current tax expense:		
Final tax at 20%	(P 4,926)	(P 1,682)
Deferred tax income:		
Deferred tax income relating to net operating loss carryover (NOLCO)	9,021,080	4,351,788
Relating to tax application of NOLCO	(1,409,840)	-
Deferred tax resulting from reduction in tax rate	(1,775,005)	-
	<u>5,836,235</u>	<u>4,351,788</u>
	<u>P 5,831,307</u>	<u>P 4,350,106</u>

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

	2008	2007
Tax on pretax income at 35%	P 7,604,209	P 4,348,444
Adjustment for income subjected to lower income tax rates	3,693	1,662
Tax effects of:		
Reduction in tax rate	(1,775,005)	-
Non-deductible interest expense	(1,590)	-
Tax expense reported in the consolidated income statements	<u>P 5,831,307</u>	<u>P 4,350,106</u>

The tax income for the years 2008 and 2007 pertains to the subsidiaries. The Parent Company availed of the income tax holiday under its registration with the BOI (see Note 17) starting on January 1, 2006.

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

	BALANCE SHEETS		INCOME STATEMENTS	
	2008	2007	2008	2007
NOLCO	P 10,650,027	P 4,813,793	P 5,836,235	P 4,351,788
Deferred Tax Income			P 5,836,235	P 4,351,788
Deferred Tax Assets	<u>P 10,650,027</u>	<u>P 4,813,793</u>		

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

TAXABLE YEARS	AMOUNT	UNTIL
2008	P 25,774,508	2011
2007	8,406,033	2010
2006	1,320,010	2009
	<u>P 35,500,551</u>	

20. 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:

20.1 Rentals

The Group has an operating lease agreement with Udenna Corporation, the ultimate parent Company (see Note 23.3). Total rent expense incurred in the years 2008, 2007 and 2006 is about P4.8 million, P2.8 million and P2.1 million, respectively and is presented as part of Rent expense (see Note 15).

20.2 Due from Related Parties

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

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

	2008		2007	
Due from parent company:				
Balance at beginning of year	P	22,498,464	P	14,347,683
Additions		33,454,326		114,989,652
Collections		(53,015,060)		(106,838,871)
Balance at end of year	P	<u>2,937,730</u>	P	<u>22,498,464</u>
Due from related parties:				
Balance at beginning of year	P	13,100,611	P	41,386,680
Additions		633,282		48,920,206
Collections		(430,918)		(77,206,275)
Balance at end of year	P	<u>13,302,975</u>	P	<u>13,100,612</u>
Total due from related parties:				
Balance at beginning of year	P	35,599,076	P	55,734,363
Additions		34,087,608		163,909,857
Collections		(53,445,978)		(184,045,146)
Balance at end of year	P	<u>16,240,705</u>	P	<u>35,599,076</u>

The Group's advances to related parties is presented as Due from Related Parties in the consolidated balance sheet.

20.3 Key Management Compensations

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

	2008		2007		2006	
Salaries and wages	P	17,770,685	P	18,439,923	P	4,888,369
13th month pay and bonuses		2,410,405		2,576,032		285,827
Honoraria and allowances		1,647,060		570,689		1,692,500
	P	<u>21,828,150</u>	P	<u>21,586,644</u>	P	<u>6,866,696</u>

21. EQUITY

21.1 Capital Stock

Capital stock consists of:

	SHARES			AMOUNT		
	2008	2007	2006	2008	2007	2006
Common shares – P1 par value						
Authorized:						
Balance at beginning of year	400,000,000	400,000,000	10,000,000	P 400,000,000	P 400,000,000	P 10,000,000
Increase during the year	-	-	390,000,000	-	-	390,000,000
Balance at end of year	<u>400,000,000</u>	<u>400,000,000</u>	<u>400,000,000</u>	<u>P 400,000,000</u>	<u>P 400,000,000</u>	<u>P 400,000,000</u>
Issued:						
Balance at beginning of year	145,000,000	116,000,000	10,000,000	P 145,000,000	P 116,000,000	P 10,000,000
Stock dividends	43,000,198	-	-	43,000,198	-	-
Issued during the year	-	29,000,000	106,000,000	-	29,000,000	106,000,000
Balance at end of year	<u>188,000,198</u>	<u>145,000,000</u>	<u>116,000,000</u>	<u>P 188,000,198</u>	<u>P 145,000,000</u>	<u>P 116,000,000</u>

As of December 31, 2008 and 2007, the Company has 26 stockholders owning 100 or more shares each of the Company's capital stock.

21.2 Increase in Authorized Capital Stock

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

- On June 12, 2006, the 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;
- 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;
- 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 into 400,000,000 shares with par value of P1 per share.

21.3 Additional Paid-in Capital

In 2007, the 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 account in the consolidated balance sheet.

21.4 Treasury Shares – At Cost

The details of this account are as follows:

	SHARES		AMOUNT	
	2008	2007	2008	2007
Balance at beginning of year	795,000	-	P 5,639,300	P -
Purchases during the year	<u>3,054,000</u>	<u>795,000</u>	<u>11,612,840</u>	<u>5,639,300</u>
Balance at end of year	<u>3,849,000</u>	<u>795,000</u>	<u>P 17,252,140</u>	<u>P 5,639,300</u>

21.5 Deposits on Future Stock Subscriptions

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

21.6 Retained Earnings

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

22. EARNINGS PER SHARE

Earnings per share were computed as follows:

	2008	2007	2006
Net income	P 150,288,738	P 122,358,766	P 74,262,058
Divided by weighted average number of outstanding common shares	<u>164,993,432</u>	<u>129,231,289</u>	<u>23,979,167</u>
Earnings per share	P <u>0.91</u>	P <u>0.94</u>	P <u>3.10</u>

The Parent Company does not have dilutive shares as of December 31, 2008, 2007 and 2006. Accordingly, no diluted earnings per share was computed by the Group.

23. COMMITMENTS AND CONTINGENCIES

23.1 Capital Commitments

As of December 31, 2008, 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 86 opened retail service stations as of December 31, 2008. An additional of 31 other retail service stations were under various stages of completion as of end December 2008.

In 2009, the Parent Company plans to expand further its petroleum retail service stations and carry out its investments in its subsidiaries to put up depot and terminalling facilities in strategic locations, complete its chain of logistical support to strengthen its foothold in the industry.

23.2 Letters of Credits

As of December 31, 2008, 2007 and 2006, the Parent Company has unused letters of credit amounting to P250.9 million, P317.0 million and P140.0 million, respectively.

23.3 Operating Lease Commitments – Company as Lessee

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

	2008	2007
Within one year	P 25,569,301	P 19,932,120
After one year but not more than five years	<u>112,036,842</u>	<u>99,139,545</u>
More than five years	<u>229,234,662</u>	<u>269,857,734</u>
	P <u>366,840,805</u>	P <u>388,929,399</u>

Total rent expense for the years 2008, 2007 and 2006 amounted to P30,872,124, P6,915,184 and P3,005,065, respectively (see Note 15).

23.4 Operating Lease Commitments – Company as Lessor

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

	2008	2007
Within one year	P 6,523,790	P 763,705
After one year but not more than five years	<u>24,394,047</u>	<u>31,457,838</u>
More than five years	<u>12,412,603</u>	<u>6,206,301</u>
	P <u>43,330,440</u>	P <u>38,427,844</u>

Rent income for 2008, 2007 and 2006 amounting to P17,237,494, P10,329,087 and P9,304,298, respectively, is presented as part of Fuel Service, Storage Income and Other Revenue account in the consolidated income statements.

23.5 Others

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not given recognition in the 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.

24. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's risk management is coordinated with its parent company, in close cooperation with the BOD, and focuses on actively securing the Group's short-to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

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 and in the succeeding pages.

24.1 Foreign Currency Risk

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

24.2 Interest Rate Sensitivity

The Group's policy is to minimize interest rate cash-flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At December 31, 2008 and 2007, the Group is exposed to changes in market interest rates through its bank borrowings (see Note 11) and cash and cash equivalents, which are subject to variable interest rates. All other financial assets and liabilities have fixed rates.

The sensitivity of the net result for the year to a reasonably possible change in interest rates of +16.7% and -16.7% in 2008 amounted to P8,358,961, as compared with the +18% and -18% in 2007 which amounted to P349,835 with effect from the beginning of the years. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant.

24.3 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:

	Note	2008	2007
Cash and cash equivalents	4	P 357,397,359	P 114,178,773
Trade and other receivables	5	765,217,736	361,064,245
Due from related parties	20	16,240,705	35,599,076
Restricted deposits	7	80,640,980	44,751,820
Refundable rent deposits	10	7,277,348	1,681,866
		P 1,226,774,128	P 557,275,780

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

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

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

	2008	2007
Not more than one month	P 62,495,128	P 54,279,726
More than one month but not more than two months	17,941,554	20,243,220
More than two months but not more than four months	93,364,606	33,559,948
	P 173,801,288	P 108,082,894

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 regard to trade and other receivables, as the amounts recognized resemble a large number of receivables from various customers.

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.

24.4 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, 2008, 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 819,491,691	P 14,830,542	P 72,297,113
Trade and other payables	757,033,065	-	-
Security deposits	-	-	16,190,545
	P 1,576,524,756	P 14,830,542	P 88,487,658

This compares to the maturity of the Group's financial liabilities as of December 31, 2007, 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

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.

25. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and fair values of the categories of assets and liabilities presented in the balance sheets are shown below:

	Notes	2008		2007	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets					
Cash and cash equivalents	4	P 357,397,358	P 357,397,358	P 114,178,773	P 114,178,773
Trade and other receivables	5	765,217,737	765,217,737	361,064,245	361,064,245
Due from related parties	20	16,240,705	16,240,705	35,599,076	35,599,076
Restricted deposits	7	80,640,980	80,640,980	44,751,820	44,751,820
Refundable rent deposits	10	11,318,870	7,277,348	1,681,866	1,681,866
		P 1,230,815,650	P 1,226,774,128	P 557,275,780	P 557,275,780
Financial Liabilities					
Loans and borrowings	11	P 900,790,941	P 900,790,941	P 450,487,698	P 450,487,698
Trade and other payables	12	754,869,483	754,869,483	169,431,093	169,431,093
Security deposits	13	18,250,000	16,190,545	3,890,000	3,890,000
		P 1,673,910,424	P 1,671,850,969	P 623,808,791	P 623,808,791

26. 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 at most 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.

	2008	2007
Total liabilities	P 1,677,322,998	P 625,622,541
Total equity	690,757,863	566,581,967
Debt-to-equity ratio	2.43 : 1.0	1.10 : 1.0

CORPORATE
OFFICES

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

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

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

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

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

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